

Due Diligence Transmittal to Treasury & The Fed

From: Mike Italiano <mike@sustainableproducts.com>

Date: October 15, 2010 4:41:34 PM EDT

To: <Judson.Jaffe@do.treas.gov> <Judson.Jaffe@do.treas.gov>

Cc: Alfred.Johnson@do.treas.gov, Ian.Samuels@do.treas.gov, Shirley.Chisolm@do.treas.gov, rita.c.proctor@frb.gov, bruce.petersen@ffic.com, Jim Balsan <james.balsan@bnymellon.com>, Jim Yacenda <yacendaj@fhlsf.com>, Ken Willis <kenneth.willis@fhbboston.com>, Stefan Mueller <stefan.mueller@SEM-advisors.com>, Tim Warman <warmant@nwf.org>, Joe Mendelson <mendelsonj@nwf.org>, Johanna Partin <Johanna.Partin@sfgov.org>, Jean Lupinacci <Lupinacci.Jean@epamail.epa.gov>, Bob Sauchelli <sauchelli.robert@epamail.epa.gov>, Mark Carter <mark@capitalmarketspartnership.com>, Dan Winters <dan@capitalmarketspartnership.com>, Adolfo Silva <Adolfo@capitalmarketspartnership.com>, Jim Lord <Jim@capitalmarketspartnership.com>, Michael Zimmer <Michael.Zimmer@thompsonhine.com>, Bill McInerney <William.McInerney@cwt.com>

Subject: Re: Launching \$1 Trillion Private Sector Stimulus Through Green Building Securities / Scheduling Meeting With Assistant Secretary Miller

Jud,

Many thanks for taking the time and interest in the well documented business case!

The data proving the business case released at the NYSE August 18, 2009 are in the reports at the following link and listed at the end of this email for your convenience: http://mts.sustainableproducts.com/Capital_Markets_Partnership/BusinessCase/. These data were also confirmed in Green Building Underwriting Public Meetings conducted at the Federal Reserve San Francisco (Apr. 15, 2010), Federal Reserve Boston (June 23, 2010), and LA Federal Reserve (Sept. 10, 2010) with the Federal Home Loan Bank and Home Depot.

Also at the end of this email is a chart depicting GBS Financing. For your convenience, this email summarizes the key value creation / risk reduction issues contained in the documents at the link.

Green Buildings Have Higher Rents, Selling Prices & Asset Values as Shown By National Statistically Valid Data. The Quigley Berkeley *et al.* studies *Doing Well By Doing Good & Sustainability & the Dynamics of Green Buildings*, are referenced in the peer reviewed *Capital Markets Briefing Paper: Business Case for Commercializing Sustainable Investment* released at the NYSE as part of the due diligence. Quigley *et al.* document with peer reviewed national statistically valid data / controlled studies, that green buildings:

- Have three percent per square foot higher rents than conventional
- Have six percent higher effective rents than conventional (not on a square foot but on a contract basis)
- Have selling prices 16 percent higher than conventional
- During the 2007-2009 down market, had rents and asset values still higher than conventional buildings with no significant decline in green building value

Doing Well uses a national sample size of 10,000 subject and control buildings and was funded in part by EPA, and *Sustainability* uses a sample size of 27,000 buildings. The green buildings in the studies are LEED and ENERGY STAR certified buildings. See the due diligence slides graphically showing these data at the above link, and as listed below (*CMP Underwriting Green Building Value Slides*).

GBS Meets Current Market Needs. GBS is expected to be the first publicly traded sustainable / green investment product meeting the following market needs that can attract substantial investor dollars that were removed during the credit crisis and are currently sitting on the sidelines:

- Higher value collateral
- Transparent national consensus underwriting standards Green Value Score measuring increased cash flow / value
- Reduced risk
- Increased investor confidence
- Increased liquidity
- Refinancing source
- Substantial social benefits
- Very large and well documented national green building financing need
- The building industry is the world's largest

Investors Prefer Green Building Securities (GBS). Aggregation of securities of 100% green buildings (GBS) are preferred by investors as documented and contained in the *Briefing Paper's* Investor Survey initiated with S&P covering over \$3.3 trillion in assets with investors stating without exception that they will buy GBS. Similar results were obtained by Allianz Global Investors' surveys.

Green Buildings Have Well Documented Reduced Risk, and Concomitantly, GBS Are Less Risky with Transparent Underwriting Scored and Measured on a Building by Building Basis in the Security, Uniquely Consistent with Office of the Comptroller of the Currency & FTC Green Building Financing Requirements. Fireman's Fund's discounted green building insurance premiums for LEED and ENERGY STAR Buildings are based on underwritten reduced risk and the national consensus, unanimously approved, market tested and amended Green Building Underwriting Standards / *Green Value Score*. Wall Street requires consensus standards because they reduce risk and uncertainty.

Reducing risk are energy efficient buildings and buildings with onsite renewable energy, based on globally validated data from:

- Energy investment bankers (*Twilight in the Desert*, Simmons & Co. 2006)
- Rising historical conventional energy prices over the last 10 years
- National Consensus Climate Neutral Building Standard conventional energy price volatility data
- Increased energy reliability. About 150 coal fired power plants were scheduled to be built in the US to meet projected demand, but about less than 10 are moving forward due to litigation threats by local governments and environmental groups over climate pollution, and challenges in commercializing clean coal technology.

All of the preceding are contained in the due diligence, showing substantial conventional energy price volatility / rising long-term costs from depletion, regulatory constraints on carbon, and global population growth. Based on this due diligence, the unanimously approved national consensus underwriting *Green Value Scores* are higher for properties with energy efficiency, onsite renewable energy, and proximity to transit. The Green Building Underwriting Standards / *Green Value Score* were launched by JPMorgan and Wachovia, unanimously approved in a 30 national day ballot vote, market tested by JPMorgan, CB Richard Ellis, Jones Lang LaSalle, Transwestern, and Comerica Bank, and the Standards were amended incorporating the market test results. Each GBS property has a 25-100 *Green Value Score* transparently identifying the green building attributes increasing value. Properties must have a minimum score of 25.

Please also see the due diligence slides graphically showing the historical and expected conventional energy price volatility data at the above link, as listed below (*CMP Long Term Conventional Energy Price Volatility Slides*).

Reduced Risk & Higher *Green Value Scores* From Commissioning, Improved Indoor

Air & Integrative Design occur for buildings with these well documented, market recognized risk reduction measures. Commissioning simply checks for the first time with independent third party certification, that the green (not conventional) buildings are built as designed thus eliminating substantial failures of entire building systems (USGBC Congressional Green Building Luncheon Testimony 2003).

Commissioning is the Property Condition Assessment Standard used in real estate securitization that we developed for S&P, on steroids.

The Navy, Liberty Mutual, and Fireman's Fund documented that Integrative Design reduces construction costs at least 1% through at least 10% fewer change orders and improved design. Thus green buildings with Integrative Design using the ANSI National Consensus Standard, are cheaper to build and operate than brown buildings. As such, the June 23 Green Building Underwriting Public Meeting at the Boston Fed, concluded that Integrative Design should be a condition of financing.

This recommendation is also being made by the national Green Building Underwriting / Integrative Design Education with the Urban Land Institute, Fireman's Fund, and CMP.

The *Green Building Value Rating System*, one of the due diligence Background Documents at the above link as listed below, shows many studies indicating faster lease-up and tenant retention from improved indoor air quality from green buildings.

The *Rating System* was prepared with investment banks and transmitted by Citi and CMP to S&P recommending GBS initiation.

Conventional building obsolescence risk is well documented in the Deutsche Bank/REEF Reports in the due diligence. Wells Fargo publicly stated that conventional building obsolescence risk is substantial at the September 10, 2010 Green Building Underwriting Public Meeting at the LA Fed. Green buildings are the vast majority of all new construction and renovation in the central business districts of most major cities. If an asset isn't certified green, it is expected no later than the next real estate cycle to correlate with a higher observed cap rate than otherwise, meaning that the market is paying more for conventional than green buildings in order to obtain a minimum return on investment. Institutional investors with fiduciary responsibilities will aggressively work to be on the right side of that trend and have for the most part adopted green building investing policies. Andy Florance, CoStar CEO stated: "*No one is paying top of the market rents for brown buildings*" (presentation at U. of Maryland May 2009). CoStar is the leading data provider and evaluator of US commercial real estate.

GBS are a Financing and Conventional Energy Reduction Mechanism. Based on the foregoing data, Green Building Securities (GBS) are a financing mechanism for energy efficient green buildings. GBS provide investors a less risky, more

attractive product backed by 100% green / energy efficient buildings with a transparent *Score* for each property in the security showing its increased value.

The *Green Value Score* is based in large part on ENERGY STAR Score and Certification with at least 40% of the *Score* comprising energy efficiency. The higher the underwriting *Score*, the higher the energy efficiency because it is well documented that efficiency saves money and is profitable.

Furthermore as documented in the *Briefing Paper* based on the foregoing data, investor preference and successful precedent, it is expected that the securities will be popular and profitable. Investment banks are motivated to develop and qualify many more GBS to maximize fees and a 10-15 year business model, repeating the bundling and sale of GBS over and over resecuritizing the building stock just like in the 1980's and 1990's when we developed and approved the consensus Phase 1 Environmental Site Assessment Standard. The Phase 1 is required by real estate securitization due to substantial risk reduction and value creation. Risk reduction, value creation, and increased long term profits drive capital markets GBS large scale national financing of energy efficient green buildings.

The initial GBS will not be rated higher, however, the path forward for higher ratings / appraisals in the US and Canada has been identified with the rating agencies, investment banks, appraisers, and pension funds, by aligning underwriting *Green Value Scores* of 100 buildings with the 10 economic factors for buildings used by the rating agencies and appraisers.

GBS Also Can Uniquely Stop Imminent Irreversible Unmanageable Dangerous Climate Change / Ongoing Systemic Financial Market Risks. The State of California supported GBS due diligence released at the NYSE by helping calculate with two peer reviews with IPPC Scientists and NASA, that 4 million green buildings are needed in the next five years to stimulate the economy and stop ongoing systemic financial market risks / irreversible dangerous climate change. Climate damages are putting substantial financial pressure on the federal deficit and state budgets by accelerating the Flood Insurance Program going \$20B into the red as well as some State insurance funds. As a result, requests are being made for Treasury guarantees, even as assessments like the recent review by DHS/FEMA find vulnerabilities to climate related perils like flooding are expanding. The availability and affordability of risk management solutions across our economy, in the form of a stabilizing insurance industry, are threatened by escalating perils related to climate change and lagging responses to mitigate the root cause of those risks. Furthermore, as certain sectors like utilities are found liable for climate damages incurred by the States - as for example in *Connecticut v. AEP* (2d Cir. 2009) - the insurance industry faces potential litigation risk ranging from defense costs to coverage disputes. The financial markets and our entire economy depend

on a vibrant insurance industry.

Capital Markets Partnership (CMP) leaders have been conducting consensus environmental standards for the capital markets for 20 years including the following consensus due diligence standards required by all commercial real estate securitization: Phase 1 Environmental Site Assessment and Property Condition Assessment. As noted, the capital markets require consensus standards to reduce risk and uncertainty. CMP's Fact Sheet is attached.

Please let us know if you have any questions and thanks for stating that you'll review these data and get back to us in several days! With best regards,

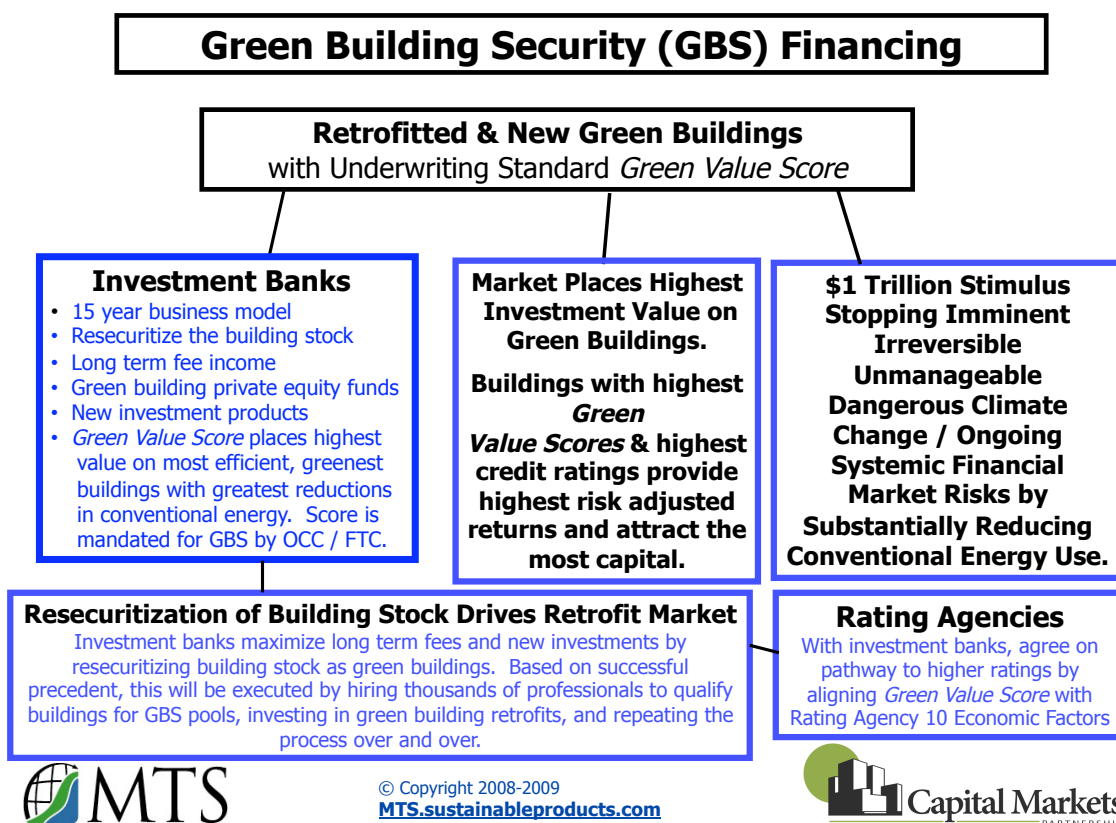
Mike

202-338-3131

GBS BUSINESS CASE DOCUMENTATION

- [Allianz](#) *Climate Change & The Financial Sector*
- [Allianz / Fireman's Fund](#) *Discounted Green Building Insurance* <http://www.firemansfund.com/business/products/property/green-building/Pages/green-building.aspx>
- [Building Design & Construction](#) *Green Buildings & the Bottom Line*
- [CMP](#) *Underwriting Green Building Value Slides*
- [CMP](#) *Green Building Finance Summit Briefing Book*
- [CMP](#) *Green Building Finance Summit Approved Meeting Notes*
- [CMP](#) *Creating an Economic Stimulus & Stopping Climate Credit Risk / Irreversibility & Updates on Irreversibility*
- [CMP](#) *Long Term Conventional Energy Price Volatility Slides*
- [CMP](#) *Green Building Value Rating System*
- [CMP](#) *National Consensus Climate Neutral Building Standard with Appendix documenting long term rising conventional energy costs / volatility*
- [CMP peer reviewed](#) *Capital Markets Briefing Paper: Business Case for Commercializing Sustainable Investment*
- [CoStar Reports](#): *Does Green Pay Off? Green Study*
- [Deutsche Bank / REEF Reports](#): *The Greening of US Investment Real Estate, & How Green a Recession?*
- [General Services Administration](#) *Assessing Green Building Performance*

- [GreenerBuildings.com](#) *Green Building Market Impact Report*
- [Haas Business School Reports \(Quigley et al.\)](#) with national statistically valid data on added green building value (cited in *Briefing Paper*) *Sustainability and the Dynamics of Green Building, & Doing Well by Doing Good*
- [Lloyds](#) *360 Project on Climate Change*
- [McGraw Hill](#) *Green Building Retrofit & Renovation*
- [McGraw Hill](#) *2009 Green Building Outlook*
- [McGraw Hill](#) *Commercial Green Building*
- [McKinsey](#) *Curbing Global Energy Demand Growth: The Energy Productivity Opportunity*
- [Reinsurance Industry](#) *Chief Risk Officers' Briefing: Climate Risk Position Paper & Letter*
- [Siemens McGraw Hill](#) *Greening of Corporate America (including green buildings)*
- [Turner](#) *Green Building Market Barometer*
- [UBS](#) *Climate Change Beyond Whether*
- [UK Stern Review on the Economics of Climate Change](#)
- [US Green Building Council / Booz Hamilton](#) *Green Jobs Study & Slides*
- [Wachovia](#) *The Greening of America* <http://www.capitalmarketpartnership.com/UserFiles/Admin%20Wachovia%20The%20Greening%20of%20America.pdf>
- [White House \(Bush II\)](#) *Scientific Assessment of Climate Change*



On Oct 12, 2010, at 6:51 PM, <Judson.Jaffe@do.treas.gov> <Judson.Jaffe@do.treas.gov> wrote: Mike,

It would probably make sense for us to have a brief phone call in which you walk us through your proposal, and we have a chance to ask any questions that arise in reviewing the material you've sent, as well as during the course of that call.

We'll get back to you once we have identified a few windows of time that would work for us.

In the meantime, in the various material that you've sent, you note that you've already had conversations with NEC and FHFA. Can you share whom you've been speaking with at NEC and FHFA? Also, you note that "Treasury has been an active Partner in our completed due diligence." Whom have you been working with here at Treasury?

Thanks,
Judson

Judson Jaffe

Office of Environment and Energy
U.S. Department of the Treasury
Phone: 202.622.7751
Fax: 202.622.6728
Email: judson.jaffe@do.treas.gov

-----Original Message-----

From: Mike Italiano [<mailto:mike@sustainableproducts.com>]
Sent: Tuesday, October 12, 2010 5:48 PM
To: Johnson, Alfred I.; Jaffe, Judson; Samuels, Ian
Cc: Chisolm, Shirley; Tim Warman; Joe Mendelson; Jeff Telego; bruce.petersen@ffic.com; Stefan Mueller; Claire Johnson; Jean Lupinacci; Jim Yacenda; Mark Carter; Dan Winters
Subject: Re: Launching \$1 Trillion Private Sector Stimulus Through Green Building Securities / Scheduling Meeting With Assistant Secretary Miller

Alfred, Jud & Ian,

We appreciate your interest!

What's the best next step? With best regards,

Mike Italiano
Chief Executive Officer
Founder, US Green Building Council
Director, Sustainable Furnishings Council
CEO, Market Transformation to Sustainability

Capital Markets Partnership
1511 Wisconsin Avenue, NW
Washington, DC 20007
202-338-3131 p
202-338-2800 f
<http://www.capitalmarketpartnership.com>
<http://mts.sustainableproducts.com>
<http://www.smartcertifiedproducts.com>
<http://sustainableproducts.blip.tv>

Acting Now for a Healthy & Prosperous Tomorrow

On Oct 12, 2010, at 5:33 PM, <Alfred.Johnson@do.treas.gov> wrote:

Mike -

I want to introduce you to Jud Jaffe and Ian Samuels. Jud works in the Office of Environment and Energy and Ian works in the Office of Capital Markets. I understand that Mary offered to put you in touch with the folks that are working on these issues - these are the guys.

Hope that is helpful,

Alfred

-----Original Message-----

From: Chisolm, Shirley

Sent: Tuesday, October 12, 2010 11:34 AM

To: Johnson, Alfred I.

Subject: FW: Launching \$1 Trillion Private Sector Stimulus Through Green Building Securities / Scheduling Meeting With Assistant Secretary Miller

Alfred,

Per Mrs. Miller. Thanks.

-----Original Message-----

From: Mike Italiano [mailto:mike@sustainableproducts.com]

Sent: Monday, October 11, 2010 8:24 PM

To: Chisolm, Shirley

Cc: bruce.petersen@ffic.com; lee.stephens@bnymellon.com; Jeff

Telego; Stefan Mueller; Tim Warman; Joe Mendelson

Subject: Fwd: Launching \$1 Trillion Private Sector Stimulus Through Green Building Securities / Scheduling Meeting With Assistant Secretary Miller

Shirley,

In my call with Mary, we discussed the recent attached OCC Requirements for green building financing.

Mary is sending the email below to internal Treasury folks to obtain feedback on Mary's possible participation in a meeting with Vice President Biden, investment bank top management, and the following entities that have agreed to participate in support of launching Green Building Securities:

- Bank of New York Mellon
- Capital Markets Partnership
- City of Chicago
- City & County of San Francisco
- City of San Jose
- Environmental Bankers Association
- Federal Home Loan Bank
- Fireman's Fund Allianz
- Institute for Market Transformation to Sustainability

- National Wildlife Federation
- State of California
- US Department of Energy
- US Environmental Protection Agency

Green Building Securities uniquely meet the OCC green building financing requirements:

- Observing existing lien preference
- Using prudent underwriting with the National Consensus Green Building Underwriting Standard / Green Value Score identifying increased green building economic value
- Using transparent disclosure of added economic value for each security and transparent underwriting standards providing needed consumer protections

Could you please print this out for Mary at your very earliest convenience and see if she wants to forward this email as well to the Treasury folks she is working with? Thanks! With best regards,

Mike
202-338-3131

Begin forwarded message:

From: Mike Italiano <mike@sustainableproducts.com>
Date: September 30, 2010 5:36:33 PM EDT
To: Shirley.Chisolm@do.treas.gov
Cc: Jonathan.Silver@hq.doe.gov, Michael Zimmer <Michael.Zimmer@thompsonhine.com>, Tim Warman <warmant@nwf.org>, Stefan Mueller <stefan.mueller@SEM-advisors.com>, bruce.petersen@ffic.com, Marilyn Engwall <marilyn.engwall@cityofchicago.org>, Larry Jones <ljones@usmayors.org>, Joe Mendelson <mendelsonj@nwf.org>, Mark Carter <mark@capitalmarketpartnership.com>
Subject: Launching \$1 Trillion Private Sector Stimulus Through Green Building Securities / Scheduling Meeting With Assistant Secretary Miller

Shirley,

As we discussed, Jonathan Silver, DOE's Financing Executive Director in the Secretary's Office, recommended that we request Mary's support to Vice President Biden in launching with investment bank top management, this critically important private sector stimulus next month. It will substantially help the deficit and achieve great

economic, political. and social benefits.

Treasury has been an active Partner in our completed due diligence work on this stimulus with investment banks, investors, and rating agencies released on August 18, 2009 at the NYSE. Attached is the background:

Draft letter to Joe Biden from the National Wildlife Federation,
Chicago Mayor Richard Daley, Fireman's Fund, and US Conference of
Mayors Benefits of Green Building Securities Governor Arnold
Schwarzenegger support letter to the White House Capital Markets
Partnership Fact Sheet

Thank you. With best regards,

Mike Italiano
Chief Executive Officer
Founder, US Green Building Council
Director, Sustainable Furnishings Council CEO, Market Transformation
to Sustainability

Capital Markets Partnership
1511 Wisconsin Avenue, NW
Washington, DC 20007
202-338-3131 p
<http://www.capitalmarketpartnership.com>
<http://mts.sustainableproducts.com>
<http://www.smartcertifiedproducts.com>
<http://sustainableproducts.blip.tv>

Acting Now for a Healthy & Prosperous Tomorrow

OCC Policy on Green Building Finance.pdf
Revised CMP letter 9 -30 .pdf
GBSlettertoLawrenceSummers.pdf
Fact Sheet.pdf
GBS Benefits.pdf