Stoneweg US

Sustainable value creation

A Q&A with Thomas Stanchak, Stoneweg US's managing director of sustainability

Could you define what "green value creation" means in the context of the firm's investment strategy?

At Stoneweg US, "green value creation" means thoughtfully integrating sustainable practices throughout our investment strategy to enhance asset value. This approach involves understanding building performance, setting achievable goals and continuously managing outcomes. Examples of this are making investments in energy efficiency, incorporating renewable-energy solutions, and implementing practical and accretive sustainable processes to our ground-up construction and existing portfolio operations. Our approach to sustainability is fundamentally an opportunistic problem-solving strategy aimed to protect and grow the value of our properties. This is achieved through improving margins, reducing operational costs and distinguishing our investments by offering quality experiences to the people who choose to call our communities their home.

Can you discuss the role of carbon accounting in your investment decision-making process? Why is this important?

Sustainability has always been a facet of our work, though our strategy has evolved significantly over time. This year marks a milestone, as we prepare to release our first comprehensive carbon-accounting report for our largest managed fund. This report will include all material categories of scope 3 emissions, both at the property and corporate levels, and will be accompanied by a separate carbon-accounting disclosure for Stoneweg US as the asset manager. We're disclosing as the asset manager because we believe it is important to walk the talk.

This disclosure not only sets science-based targets but will also outline practical actions we are taking now and in the near future to improve our sustainability performance. While we think long-term, we believe there is value in identifying the opportunities to improve today. For example, this year we are specifically targeting a 5 percent improvement in relative emissions performance. Our approach to decarbonization and a clean energy future breaks down our long-term objectives into discrete, manageable tasks, making our sustainability efforts both tangible and measurable.

We are now beginning to leverage carbon accounting as a tool in our investment decision-making process, evaluating opportunities to create efficiency through funding, operations and capital investments. Put simply, our strategy is to ensure that our investments are not only sustainable but also fiscally sound and valuable in the long run.

How do you currently measure your environmental impact? How has that improved in the past year?

Our approach to measuring environmental impact is tethered to our commitment to continuous improvement and transparency. We believe the solution to effective climate action is not exclusive to a few sophisticated investment managers but in advocating for the vast majority of investors to take straightforward actions today that lead to better outcomes.

This past year, we have made significant progress in enhancing our ability to both measure and manage our environmental performance. However, like many in our industry, we acknowledge there is still considerable room for improvement. A key advancement we undertook this year was the integration of more sophisticated data collection and analysis techniques. Specifically, we now directly link our sustainability capital improvements to corresponding property-level meters, allowing us to continuously track and monitor both cost and usage performance. This method establishes a robust accountability, compelling our team to do more of what works and innovate where improvement is necessary.

What is your firm's portfolio-level emission-reduction plan? What kind of measurements and data can you provide?

During the past year, we've been working to develop a comprehensive portfolio-level emission-reduction plan. This plan will be published this year and complements our carbon-accounting efforts, which are informed by science-based targets.

To manage our progress toward this goal, we utilize a vertically integrated operating and software solution for building performance and utility data collection. This system allows us to track energy consumption, greenhouse-gas emissions, waste and water usage, so we are not distracted by the search for data but can focus on the opportunities where value creation and improvement intersect. We publicly report these results with transparency and third-party assurance, ensuring our data not only measures our performance, but also informs our decision-making process.

At the property level, each investment in our portfolio is assessed for potential energy-efficiency improvements and retrofits, such as LED-lighting upgrades, HVAC system replacements and the installation of solar panels. We quantify the impact of these improvements in terms of reduced energy consumption and cost savings, which are then detailed in our annual ESG and carbon-accounting reports.

How does Stoneweg US balance the upfront costs of implementing sustainable technologies with the expected financial returns?

Stoneweg US's approach to implementing sustainable technologies, practices and capital investments challenges the traditional view of upfront costs. We fundamentally believe sustainability is about conducting business efficiently and effectively. Our comprehensive carbon-accounting disclosures are not just published for the purpose of compliance or a value signaling; they are employed as tools to gain a better understanding of our operations.

Understanding carbon intensity and its implications allows us to optimize our investments. This method aligns our environmental strategies with financial performance, reducing waste and avoiding the costly shortcuts associated with less thoughtful implementations. For example, when considering investments in sustainable technologies, such as high-efficiency HVAC systems or solar panels, we look beyond the initial expenditures. We evaluate these actions in the context of their long-term returns on equity and improvements in carbon efficiency. This strategy ensures our sustainability efforts not only support our decarbonization goals but are also financially prudent and beneficial to our stakeholders.

We are now beginning to leverage carbon accounting to refine our decision-making process, ensuring that every dollar spent is an investment toward financially and environmentally sustainable properties. This strategic approach thoughtfully integrates the financial implications of upfront costs with expected returns, aligning with our commitment to delivering value through sustainability.

Has your firm seen a change in investor interest because of its increased focus on green value creation?

Sustainability has become a key differentiator in the global capital markets, and Stoneweg US's early adoption and robust implementation of responsible investment practices have resulted in meaningful engagement with institutional equity.

The window to distinguish one's firm through sustainability is now, accruing the first-mover benefit for those who are aligned with the clear trajectory of both global capital flows and microeconomic factors of real estate investment. Investors are increasingly seeking opportunities that not only promise traditional financial returns, but also demonstrate environmental stewardship and resilience in the context of all the changes that are taking place. Stoneweg US's proactive approach in these areas is drawing attention from a broad spectrum of investors, from institutional to private clients, who are eager to partner in the future standard of investment.

This shift is not a transient trend; we are preparing for a future where comprehensive sustainability practices are table stakes in the real estate sector. By embedding these practices into our operations now, we not only enhance our current portfolio's performance but also set a foundation for sustained relevance and competitive advantage in a rapidly evolving investment landscape.

How does Stoneweg US's sustainability efforts influence investor return in the short term and long term?

Our sustainability efforts are designed to deliver investor returns both immediately and over the long term. In the short term, our commitment to sustainable practices leads to reduced operational costs through initiatives focused on operational efficiency, conservation and waste reduction. These measures not only decrease the day-to-day expenses of managing properties but also alleviate the rent-competitive utility-expense burdens on residents, promoting potential rent growth and reducing vacancy loss. Over the long term, sustainability is an investment to protect assets, create additional value and cultivate a quality rent roll. Sustainable buildings typically command higher rents, enjoy higher occupancy rates and retain residents for longer periods, contributing to improved margins and, ultimately, a higher return on investment.

Aligning our investment strategies with well-understood and established sustainability targets, Stoneweg US is positioning its portfolio to appeal not only to traditional investors but also to those specifically seeking to acquire green assets in their investment mix. This broader appeal can improve liquidity and drive relative value, furthering long-term profitability.

Stoneweg US's sustainability efforts are a fundamental component of our strategy to create durable value for our investors, ensuring their investments are resource efficient by design.

In what ways does focusing on sustainable building practices impact the valuation of your assets?

Sustainable building practices significantly affect the valuation of our assets. This concept is only just now beginning to be broadly understood in the real estate market. First, we must acknowledge that the return on investment from these practices is dynamic and is influenced by market conditions, and attributing the added value or avoided losses requires nuance. We don't let this complexity distract us though. We set portfolio-level sustainability goals but execute these improvements as investments at the property level.

Each discrete action taken to enhance environmental performance is accompanied by a conservative ROI and value-creation projection. We then go a step further by administrating this investment process through active monitoring of results in terms of cost and use. This allows us to course-correct and continuously improve our strategies, ensuring that our sustainability efforts directly contribute to asset valuation.

Stoneweg US's methodical and accountable approach to integrating sustainable building practices helps enhance both the alpha and beta of our investment strategy. By reducing operational costs, enhancing tenant attraction and retention, and mitigating risk through compliance with evolving environmental regulations, we not only boost the immediate financial performance of our properties but also their long-term value. We believe this thoughtful strategy, tied to performance accountability, sets us apart in the market and significantly influences the valuation of our assets.

CONTRIBUTOR

Thomas Stanchak
Managing Director of Sustainability

Thomas Stanchak leads all ESG efforts on behalf of the company and serves as the key adviser on all ESG initiatives for the company's stakeholders. He is responsible for implementing sustainability best practices that positively affect conservation, consumption and efficiency, initiated at the organization level and cascading down to the 12,000 units the company has under management. Additional responsibilities include continuing to forge strategic partnerships with environmentally and socially responsible companies; driving all ESG education and innovation efforts; presenting ESG initiatives to the investor committee; and compiling data to be included in quarterly, annual and specialty reports.

CORPORATE CONTACT

Emily Fagan, Marketing Manager | Stoneweg US
+1 727-339-6630 | swus@stoneweg.com

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CORPORATE OVERVIEW

Founded in 2016, **Stoneweg US** is an opportunistic real estate investment firm with a nationwide platform focused on the acquisition and development of multifamily assets. With a portfolio of more than 12,000 units valued at more than $2.0 billion, we seek to deliver attractive, risk-adjusted returns to our investors by identifying market opportunities and optimizing asset performance, all while improving the resident experience through a variety of value-added strategies. Through our association with Stoneweg SA, a Swiss-based real estate company with more than $5.0 billion in assets under management, Stoneweg US serves as the exclusive U.S. investment manager of Varia US Properties AG, a Swiss publicly traded multifamily real estate fund (SIX Swiss Exchange ticker: VARN). Stoneweg US also partners with U.S. and international equity investors to acquire and develop multifamily assets in markets with strong population growth and positive trending economic conditions. In 2020, Stoneweg US announced the formation of SW Fund I, an additional U.S.-based investment fund targeting multifamily investments in emerging U.S. markets, and in 2023, Stoneweg US launched a development fund. For more information, please visit: **www.stoneweg.us.**

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