



# 2016 Sustainability Annual Report

Environment | Social | Governance

 **AMERICAN**  
REALTY ADVISORS  
INSTITUTIONAL CAPITAL MANAGEMENT



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About American Realty Advisors





# Environmental

Energy efficiency, water conservation, and green building practices are key components of the value we provide to our investors and tenants.





# Goals and Targets

ARA has set the following goals and targets to monitor progress and ensure the successful management of our sustainability program.

## GOALS

**Reduce our footprint** | To reduce operating expenses and environmental impacts.

**Invest in our communities** | Support education, healthcare, and economic development opportunities as catalysts of positive change in our communities.

**Support our people** | Create a diverse workplace that fosters a healthy, safe, and supportive environment for our employees.

**Measure our progress** | Monitor and understand key performance indicators that will help us improve our environmental, social, governance efforts.

## TARGETS

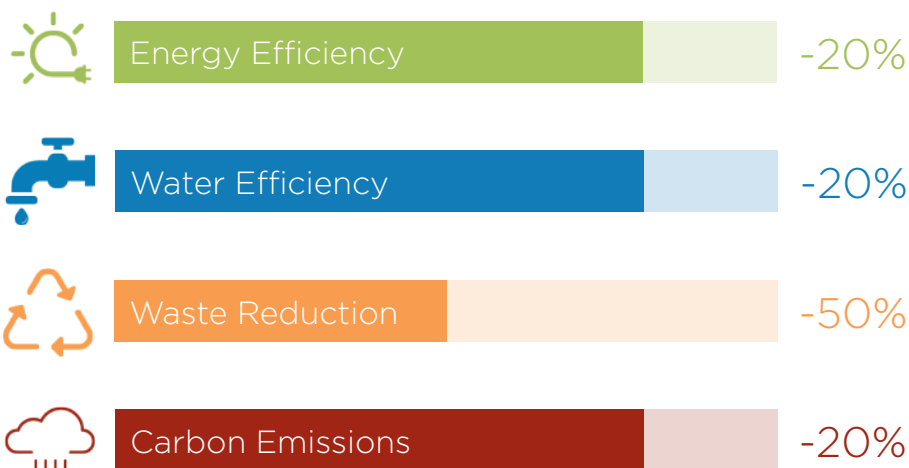
**Energy efficiency** | Reduce energy use intensity (EUI) by 20% across the portfolio by 2026 from a 2016 baseline (2% annual reduction).

**Water efficiency** | Reduce water use intensity (WUI) by 20% across the portfolio by 2026 from a 2016 baseline (2% annual reduction).

**Waste reduction** | Increase waste diversion rates to 50% in 10 years.

**Generate sustainable value** | Invest in efficiency, superior service, and operational excellence to deliver attractive long-term returns.

## PERFORMANCE TARGETS | Over a 10 year period



# Sustainability Initiatives | A Proactive Approach

At ARA, our sustainability vision incorporates the overall objective of increasing net operating income and value, while reducing the impact that our buildings have on the environment. ARA executes this vision with the belief that our efforts to reduce the environmental footprint of our building operations is key not only to enhancing our tenants' comfort and health, but also to increasing value for the benefit of our clients. As part of our vision, ARA continually strives for increased efficiency in water, energy usage, and waste management through greater tenant engagement.

Energy efficiency, water conservation, and sustainable building practices are key components of the value we seek to provide to our clients, investors, and tenants.

## Water Management

Water conservation programs can reduce a building's water consumption by approximately 27%. ARA evaluates water usage, water costs, wastewater, and recycling opportunities for each potential acquisition to determine where we can implement innovative strategies to conserve water and reduce excess water costs. Our former LEED™ Gold, Core and Shell property 1515 Wynkoop, located in Denver, CO is a prime example of a water efficiency leader. In 2014, the property won ENERGY STAR®'s "Most Efficient Building" Watts to Water Award. The program monitors energy and water consumption through ENERGY STAR® Portfolio Manager, judging best water performance per square foot and highest ENERGY STAR® score. In addition, 1515 Wynkoop won the Xcel Energy Efficiency Partner

Award in 2011 for an LED lighting retrofit of over 300 lamps in tenant space and building elevators.

## Sustainable Investment Practices Begin at Acquisition Due Diligence

ARA's Investment Group utilizes a combination of research-driven market analysis and a rigorous underwriting process to determine whether each property and the market in which it operates meets our strict acquisition guidelines. Our investment decisions take into account the direct and indirect energy usage requirements of an asset. For each potential acquisition, ARA conducts an energy analysis to identify savings that can be achieved through initiatives such as lighting retrofit programs, energy management systems, new chiller systems, co-generation facilities, or other ENERGY STAR® programs. Operating costs that are captured in lease payments are carefully evaluated by tenants and, to the extent the energy usage or energy savings can be quantified, the financial impacts are included in the underwriting of a potential investment.

In addition to the due diligence process, our investment professionals evaluate the location of properties and determine the availability of transportation resources for the tenants. Transportation opportunities such as public transit, electric vehicle chargers, and walkability may impact leasing decisions as they pertain to employee location, commute patterns, housing, and salaries.





## Featured Property | 201 South Tryon

Located in Charlotte, North Carolina, 201 South Tryon Square is an attractive Class A, 15 story multi-tenant office building constructed in 1960 and extensively renovated in 1999. ARA took over management of the asset in 2012. By evaluating the asset's water usage, water costs, and wastewater, ARA identified key strategies to improve the property's overall efficiency, ultimately saving more than 1.4 million gallons of water annually. The firm replaced existing water fixtures with low flow water fixtures in each of the faucets and toilets throughout the building, and incorporated automated water faucets and soap dispensers in each restroom to achieve this milestone. In addition, ARA replaced 28 flush valves in 2016 to further improve water conservation in this asset.

South Tryon Square was recognized by the Environmental Protection Agency's 2014 National Building Competition: Battle of the Buildings, and was awarded an ENERGY STAR® award in water conservation.

LEED™ Silver



201 South Tryon  
| Highlights

2012

ARA began managing

A/15  
Class/Stories

↓ 1.4M  
Gallons of water  
saved





## Featured Property | Cherry Logistics Center

This new construction project located in the San Francisco/Oakland Bay Area was built and sold as a state-of-the-art Class A 575,000 SF cross-dock LEED™ Silver (Core and Shell) distribution facility. This facility provides its tenants with substantial transportation savings and is expected to generate less traffic and air pollution compared to the use of a similar-sized facility in the Central Valley. During construction, our team also diverted construction waste from landfills and recycled the items at local recycling/diversion facilities. These environmentally responsible activities, among others, significantly reduced the energy, water, transportation, pollution, and carbon associated with the demolition of the previous site and construction of the new facility, as well as reduced landfill use and gravel mining.

The building landscape design incorporates native and adapted vegetation, as well as efficient irrigation design and controls, thereby reducing the potable water used for irrigation by 76%. Additionally, per lease arrangements, the plumbing fixtures installed in the building reduce potable water use by 32%. The building achieves a 42% reduction in annual energy consumption by utilizing efficient HVAC equipment and building lighting design. Further, skylights provide ambient daylight, and combined with the installed lighting system, reduce the required lighting power density. The building also purchased Renewable Energy Credits to offset 35% of the buildings grid-consumed energy for the first two years of operation. The facility was also a 2013 finalist for Silicon Valley's Business Journal's Structure Awards Best Green Project/Most Innovative Design.

LEED™ Silver



### Cherry Logistics Center | Overall Reductions

↓ 76%

Potable Water Used  
for Irrigation

↓ 32%

Potable Water Used  
for Indoor Plumbing

↓ 42%

Annual Energy  
Consumption



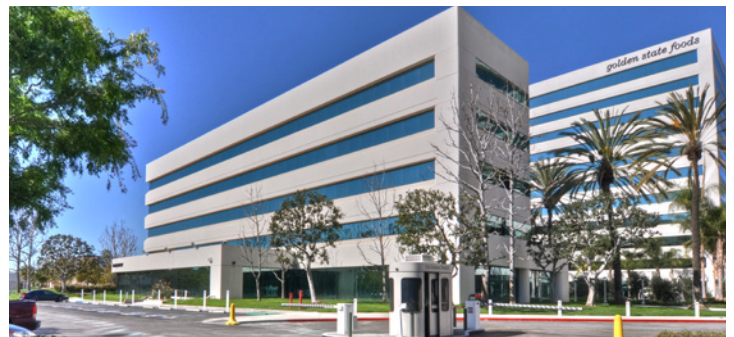


## Featured Property | 18201 Von Karman



At the time of acquisition, this asset had no advance capital for environmentally-conscious initiatives. An ineffective central plant, outdated lighting system, and lack of waste management protocol all contributed to the property's operational inefficiencies. Our rigorous due diligence process recognized a critical issue with the efficiency of the property's central plant. The property was cooled by chilled water generated in a central plant that consisted of two chillers (1- 220 ton and 1-400 ton) and six water thermal storage tanks. Of the six tanks, only three were fully operational and had the necessary controls and pumps required for daily usage. As a result, the building was unable to provide the required temperature comfort conditions to tenants during the typically warm summer months. ARA determined that, for the property to compete with newer office properties, older buildings that had already upgraded HVAC systems, the current system would need to be substantially improved.

Recognizing the environmental significance and cost effectiveness of enhancing the property, ARA pursued an intensive sustainability program, hiring local market experts, and executed an energy efficiency platform throughout the Irvine office complex.





## Featured Property | 1K Fulton

LEED™  
EB Platinum



ARA acquired 1K Fulton in September 2016 and shortly thereafter the property achieved LEED™ Platinum certification under the U.S. Green Building Council's LEED™ for Existing Buildings (EB) Rating System. This officially makes 1K Fulton one of the greenest office buildings in the United States with the highest green rating a building can receive. This unmatched creative office space is a 530,000-square-foot Class A office building developed in 2015, and is located in the heart of the Chicago sub-market of Fulton Market. In addition to earning LEED™ Platinum, 1K Fulton earned the ENERGY STAR® label in 2016 with a rating of 94, meaning the building is at least 50 percent more energy efficient than the average U.S. office building. This translates to an estimated \$54,000 in annual energy cost savings and over 3,700 metric tons of annual greenhouse gas reductions, which is equivalent to the annual emissions of nearly 800 passenger vehicles. 1K Fulton's unique features include:

- Approximately 30% of the roof area is covered by pre-vegetated green roof trays, vegetable garden, or planters.
- An intensively landscaped roof garden with a barbecue area, conference table shaded by a trellis, and textural plantings and grasses throughout.

- A next generation fitness facility exclusively for building tenants that includes: self-powered treadmills, spin bikes, free weights, boxing, TRX, elliptical machines, and a stretching area.
- Original artifacts - including face brick, wood from the rooftop water tower, metal flywheels, and terra cotta elements were salvaged from the repurposed cold storage building and incorporated throughout the project.
- High-efficiency motion sensor lighting to significantly reduce energy consumption.
- Advanced building systems, which include a ventilation system providing fresh air to tenants, rather than the recycled air typical of office buildings.
- Over 70% of occupants use alternative commuting methods ranging from taking the bus, taking the train, biking, walking, carpooling or commuting in a green car.
- Charging stations for electric vehicles and bike storage, with showers for tenants.

Other green features and programs include: reduced heat island effect through covered parking and reflective roofing; use of low-VOC materials and finishes; approximately a 30% reduction in indoor, potable water usage; electronic waste recycling programs; a nearly 50% reduction in landscaping-related water consumption; and a construction waste diversion rate greater than 50%.





# Energy Star® and Leadership Awards

As an ENERGY STAR® Partner since 2007, ARA's sustainability efforts are aligned with the ENERGY STAR® Guidelines for Energy Management. The entire office portfolio has been benchmarked in Portfolio Manager, EPA's ENERGY STAR® measurement tracking tool. ARA manages nearly 30 properties that have received their 2016 ENERGY STAR® award. As a direct result of our efforts, 10 of those properties have 2016 ENERGY STAR® scores of 90 or above and all such properties combined have an average score of 86. We also implemented a combination of no- and low-cost operational adjustments, which included performing small-scale lighting retrofits and upgrading energy management systems.

ARA has over 3.5 million sf of LEED™ awarded assets across its portfolios. 1K Fulton, a Class A office asset in Chicago, IL recently received the LEED™ Platinum Certification, subsequent to ARA's acquisition of this property, making it one of the greenest office buildings in the United States. The LEED™ Platinum Certification is the highest green rating a building can achieve.

## LEED™ Properties as of 12/31/16

Property	Property Type	LEED Rating/Level	LEED SF
2033 K	Office	O+M, Silver	120,778
Energy Center II	Office	C+S, Gold	305,586
150 Wacker	Office	O+M, Silver	243,444
ALARA Uptown	MF	LEED Gold (home)	254,710
Accent	MF	Homes, Gold	352,135
2201 Westlake	Office	C+S, Gold	317,102
Continuum	MF	NC, Gold	416,951
1101 14th Street	Office	O+M, Gold	128,745
Admiral Safeway	Retail	Retail, Silver	68,876
1K Fulton	Office	O+M, Platinum; C+S, Gold	562,792
Foundry Square III	Office	C+S, Gold	313,865
1130 Connecticut Ave.	Office	O+M, Gold	223,317
URS Center	Office	O+M, Gold	192,841
321 Clark	Office	O+M, Gold	1,025,053
Congress Center	Office	O+M, Gold	383,349
Pasadena Vons	Retail	NC, Certified	76,250
Progress Point	Office	C+S, Gold	123,540
<b>Total</b>			<b>5,235,244 SF</b>



# ENERGY STAR® Properties as of 12/31/16

Property	Years Certified	Current Score	Energy Star SF
2999 Oak Road	2009 (99), 2010 (100), 2012 (100), 2013 (98), 2014 (99), 2015 (99), 2016 (94)	94	375,782
Energy Center II	2010 (94), 2011 (92), 2012 (90), 2013 (90), 2014 (93), 2015 (94), 2016 (92)	92	305,585
1101 14th Street	2010 (79), 2011 (79), 2012 (80), 2013 (82), 2014 (93), 2015 (92), 2016 (88)	88	119,963
Newport Corporate Tower	2008 (81), 2009 (79), 2010 (85), 2011 (88), 2012 (92), 2013 (94), 2014 (92), 2015 (92), 2016 (90)	90	203,363
Deerbrook	2009 (86), 2010 (83), 2012 (90), 2013 (91), 2014 (85), 2015 (89), 2016 (90)	90	147,623
200 Los Robles	2006 (96), 2007 (92), 2008 (87), 2009 (92), 2010 (94), 2011 (95), 2012 (94), 2013 (90), 2014 (89), 2015 (89), 2016 (93)	93	130,818
2201 Westlake	2015 (85), 2016 (83)	83	507,464
The Quadrangle	2009 (75), 2010 (92), 2011 (90), 2013 (80), 2014 (75), 2015 (76), 2016 (80)	80	128,905
150 North Wacker Drive	2004 (87), 2007 (75), 2008 (76), 2012 (77), 2013 (79), 2014 (75), 2016 (78)	78	265,117
2033 K Street	2008 (77), 2009 (75), 2010 (81), 2011 (79), 2012 (87), 2013 (80), 2014 (77), 2015 (78), 2016 (79)	79	134,457
153 Townsend	2006 (82), 2008 (79), 2009 (81), 2010 (86), 2011 (84), 2012 (85), 2013 (78), 2014 (76), 2015 (76), 2016 (80)	80	168,161
1K Fulton	2016 (94)	94	562,792
Foundry Square III	2016 (98)	98	313,865
321 Clark	2016 (84)	84	1,025,053
8181 Tufts	2015 (93), 2016 (92)	92	192,830
1130 Connecticut	2010 (88), 2012 (87), 2014 (85), 2015 (81), 2016 (83)	83	235,030
Congress Center	2016 (94)	94	383,349
Oak Brook Regency Towers	2008 (80), 2009 (82), 2010 (75), 2011 (75), 2012 (80), 2013 (79), 2014 (75), 2015 (77), 2016 (80)	80	438,339
Waterfront Place	2015 (78), 2016 (81), 2017 (85)	85	54,457
Glenwood Plaza	2013 (76), 2014 (76), 2015 (75), 2016 (76)	76	141,743
Crossroads I	2014 (81), 2015 (83), 2016 (86)	86	79,188
Crossroads III	2010 (95), 2013 (86), 2014 (81), 2015 (78), 2016(82)	82	121,512
Crossroads IV	2016 (79)	79	97,856
348 Hospitality	2008 (89), 2009 (84), 2010 (84), 2011 (85), 2012 (81), 2013 (89), 2014 (89), 2015 (89), 2016 (86)	86	49,972
810 First Street	2013 (83), 2014 (83), 2015 (86), 2016 (87)	86	232,126
501 Shatto	2012 (76), 2013 (76), 2014 (82), 2015 (86), 2016 (83)	83	86,246
Progress Point	2011 (91), 2012 (90), 2013 (87), 2014 (87), 2015 (89), 2016 (87)	87	123,540
6425 Katella	2011 (79), 2012 (77), 2015 (79), 2016 (75)	75	36,192
Galaxy II (North)	2016 (75)	75	123,540
<b>Total</b>			<b>7,154,938 SF</b>





# Social

We believe that conducting our business in a responsible and sustainable way can improve our ability to meet the commitments to our clients and align our activities with the broader needs of society.



ARA recognizes that investment in efficiency, superior service, and operational excellence are strategies that can deliver attractive long-term returns. Property management teams are charged with great responsibility at the asset level. To that end, we support them by providing guidelines to conduct periodic property assessments, preventive maintenance, and enhanced energy management.

Our responsibility to our tenants is to provide an efficient, comfortable, and productive workplace for their employees and businesses. We believe that by raising the standards for sustainable building and operating efficiencies in these properties, while also working with local communities, we can create a positive impact far beyond our buildings.

# Property Support and Tenant Satisfaction

“We are committed to advancing the principles of sustainable investing and have instituted a formal Green Initiative firm wide. We concentrate our efforts wherever we see the greatest opportunities to raise the cost-effective sustainability profile of an asset.”

## Awards and Leadership

Starting in 2014, ARA has entered several properties to compete among more than 3,200 participants in the U.S. Environmental Protection Agency's ENERGY STAR® National Building Competition: Battle of the Buildings. The competition serves as a platform for organizations to showcase their efforts to improve energy/water efficiency and promote environmental sustainability. This initiative demonstrates our commitment to best practices in sustainability and our commitment to reducing resource use and greenhouse gas emissions.

During 2013, ARA received national recognition for our leadership in energy efficiency and green purchasing. The Environmental Protection Agency awarded ARA ENERGY STAR® Leader in two categories:

- Improvement of the energy efficiency of the buildings by more than 10% compared to a 2003 baseline; and
- Recognition as Top Performer status for achieving an average score of 91 across office buildings under our management.

ARA is among a select group whose sustainability efforts are helping to protect our environment for future generations. To put this into context, the Top Performer is the EPA's second highest award after “Performer of the Year.” Nationally, just over 300 firms have received the ENERGY STAR® Leader award and within the commercial real estate sector, only around 20 firms have ever received this award. In 2013, in addition to ARA, only 9 other firms were selected in the commercial real estate sector as Leader award recipients.

In 2013, ARA was also awarded the “Office Depot Leadership in Greener Purchasing” Award. Out of 17,000 companies, Office Depot selected 28 to be recognized with this award. Companies selected within industry sectors were those that focused on having the highest percentage of green products in their total order of supplies.

### Award Timeline

2013	2014	2015	2016
<b>EPA ENERGY STAR® Leader</b> <b>Office Depot Leadership in Greener Purchasing</b>	<b>EPA ENERGY STAR®</b> <b>Battle of the Buildings Winner:</b> 201 S. Tryon	<b>EPA ENERGY STAR®</b> <b>Battle of the Buildings Winner:</b> Katella and Galaxy II	<b>LEED™ Certifications:</b> 1K Fulton-Platinum 1101 14th Street-Gold Continuum-Gold





# Governance

Sound governance principles and leadership values are at the heart of American Realty Advisors' investment and business activities.



# Committed to Sustainability and Conservation

## Committed to the Environment and Our Clients' Investment Goals

ARA continues to demonstrate environmental stewardship by monitoring and improving our clients' assets to provide real, positive, and measurable impacts. We monitor the rapidly evolving sustainability movement to identify trends and best practices across the nation. Our sustainability programs and processes are designed to identify opportunities to reduce operating expenses and increase resiliency, while also enhancing value for our tenants, clients, and investors. We are proud of our achievements in sustainability and will continue to look for new ways to improve.

## Employee Participation

Sustainability at ARA encompasses not only our physical assets, but also the people and places impacted by our building environments. We encourage sustainable thinking and approaches within our business. Communication goes out regularly to our investment professionals, tenants, and property managers encouraging green best practices, as well as ENERGY STAR® and LEED™ progress in our portfolios.

## Environmental Investment Practices

As a fiduciary and investment manager, our high-performance culture must go hand-in-hand with a culture of responsibility. ARA has instituted the following environmental investment practices as part of its overall investment process:

- Evaluation of potential acquisitions for financially attractive green retrofit opportunities using energy and environmental audits;
- Employing best practices for building operations by tracking energy and environmental metrics of assets along with the asset's financial performance to ultimately increase values;
- Sharing of best practices and information with the firm's business partners to further increase the awareness and the benefits of being a sustainability leader;
- Establishing partnerships with our tenants to implement projects that increase efficiency, tenant well-being, and reduce operational costs, and;
- Periodic reviews of policies regarding energy usage and environmental impact for all properties under management.

## Vision-Mission-Values

### VISION

**To create a positive impact far beyond our buildings and operations.**

### MISSION

**To conduct our business and investment activities in a responsible and sustainable manner that adds value to our clients and communities.**

### VALUES

**Efficient Properties:** We hold ourselves to high standards for sustainable building and efficient operations to create a positive impact beyond our buildings.

**Strong Communities:** We want the communities in which we live and work to be more resilient to the threats of climate change and economic uncertainty.

**Tenant Well-being:** The comfort and health of our tenants are central to how we design and implement superior tenant services.

**Responsible Investing:** We seek to act in the best long-term financial interests of our clients while remaining committed to sustainable investing principles.

**Transparent Governance:** We strive to continually improve our management practices and provide progress updates to our stakeholders to become a better corporate citizen.





Our primary responsibility is to act in the best long-term interests of our investors and their participants and beneficiaries.



We seek to accomplish this while acting as responsible citizens in the communities in which we live and work.



# About American Realty Advisors

ARA is a premier investment manager of institutional quality commercial real estate portfolios focused on providing superior risk-adjusted returns for our clients and investors, consistent with the objectives defined by their investment guidelines.



One of the largest privately-held real estate investment management firms in the U.S.



Over \$8.0 billion in assets under management\*



An investment advisor registered with the Securities and Exchange Commission



More than 450 investors entrust their capital to ARA



Core, core-plus, and value-added strategies encompassing a wide range of investment opportunities in high quality office, retail, industrial, multi-family, and other properties



Our strategies are implemented through commingled funds and separately managed accounts in both equity and debt investments

American Realty Advisors is wholly-owned by its senior professionals who understand the importance of aligning manager-client interests. At ARA, we design solutions to deliver value while bringing a clear understanding of market dynamics, research, and experience to real estate investment management.

\*as of December 31, 2016.



1  
of the largest privately-held real estate investment management firms.



\$8B  
in assets under management  
as of December 31, 2016.



100%  
employee-owned



28  
years of providing real estate investment solutions





# Reporting and Disclosure

This report contains Standard Disclosures from the GRI Sustainability Reporting Guidelines. The table below details the indicators referenced and the corresponding content. For more information about this report, please email: [sustainability@aracapital.com](mailto:sustainability@aracapital.com)

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Photos used in this report were selected based on visual appearance and are used for illustrative purposes only.

**Forward-Looking Statements:** This report may contain forward-looking statements within the meaning of the federal securities laws. Forward-looking statements are statements that do not represent historical facts and are based on our beliefs, assumptions made by us, and information currently available to us. Forward-looking statements in this report are based on our current expectations as of the date of this snapshot, which could change or not materialize as expected. Actual results may differ materially due to a variety of uncertainties and risk factors. Except as required by law, we assume no obligation to update any such forward-looking statements.

**Other Disclosures:** Along with the American Society of Heating, Refrigerating, and Air-Conditioning Engineers (ASHRAE) standards, the International Performance Measurement and Verification Protocol (IPMVP) is the reference standard for the measurement and verification used in the calculations of water and energy use savings. Energy or water savings are determined by comparing energy/water use associated with a facility, or certain systems within a facility, before and after energy/water cost reduction measures are implemented. The "before" case is called the baseline model and the "after" case is the post installation model. Baseline and post-installation models can be constructed using the methods described in the IPMVP. Performance of equipment, both before and after a retrofit, can be measured so that savings, or more appropriately, water or energy cost avoidance, is the calculated difference between the measured performance of energy or water cost reduction measures and the amount of water or energy that the building would use in the absence of the retrofit. The baseline water or energy usage is created using measured equipment performance data prior to the retrofit coupled with assumptions about how the equipment will operate in the post-installation period.





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