



# Commercial Property Management: Sustainability

Whether it's setting up a simple recycling program, preparing a corporate sustainability report, or pursuing an environmental building certification, commercial property managers (CPMs) have a variety of opportunities to make a positive impact on economic, environmental and social sustainability. While many sustainability initiatives remain voluntary, lawmakers, investors, consumers and employees are increasingly expressing preferences for companies that can demonstrate sustainable attributes. In order to remain ahead of pending regulation and increased competition, CPMs who understand the benefits afforded by sustainability programs will be well positioned for the future.

## Background

The U.S. Environmental Protection Agency (EPA) estimates that nearly 250 million tons of municipal solid waste (MSW) were generated in the United States in 2010 with commercial and institutional facilities generating 35 percent to 45 percent of this waste stream. At the same time, recycling rates are steadily increasing: 34.1 percent of the waste stream was recycled or composted in 2010 as opposed to 28.6 percent in 2000<sup>1</sup>. Companies are seeing increased benefits to establishing recycling programs to counteract increasing landfill disposal fees and internal demands to reduce operational costs. New state or municipal waste and recycling regulations coupled with the desire to be recognized for environmental stewardship are also influencing companies to examine their waste practices and to develop comprehensive sustainability programs.

As more CPMs seek a sustainability edge, they often realize measurable successes in terms of market share, revenue growth and cost savings. Comprehensive sustainability programs allow CPMs to reduce energy consumption, waste output and water usage, which in turn can decrease the property's carbon footprint and result in millions of dollars in cost savings<sup>2</sup>. A comprehensive sustainability agenda and associated monitoring programs can help CPMs meet company goals and provide a platform to measure property performance. With this degree of visibility, CPMs can monitor progress and distinguish their properties from their competitors.

## The Pressure is On

Commercial properties are facing increased pressure from various sources—including the regulatory community, competitors and customers—to incorporate sustainability practices into their operations. Organizations that adopt sustainable strategies will lead their peers in the event that local, state or federal legislation compels operational adjustments. Several sustainability initiatives are already mandated including:

- **Recycling Regulations:** Some form of recycling legislation has been enacted in 29 states<sup>3</sup>, with even more campaigns at local levels of government<sup>4,5</sup>.
- **Organic Waste Bans in Landfills:** Mandatory recycling and composting programs have been implemented in cities like Vancouver<sup>6</sup>, Seattle<sup>7</sup> and San Francisco<sup>8</sup>, with fines for non-compliance in several of these markets.
- **Product Stewardship Legislation:** New laws shift the burden of disposal from the consumer to the manufacturer, influencing raw material choices and product designs accordingly.
- **Carbon Reduction Laws:** Various Government and NGOs impose taxes and fees on producers of carbon emissions. These taxes and fees are to help mitigate greenhouse gas emissions. In some cases, the opposite is in place whereas the use of financial instruments<sup>9,10,11</sup> such as cash, securities or equity based derivatives are used to incentivize producers who reduce or eliminate greenhouse gas emissions.

By anticipating potential regulations and implementing sustainability strategies, properties become more flexible and better positioned. In an increasingly globalized and competitive landscape, organizations may want to avail themselves of all potential opportunities. A comprehensive sustainability program can help mitigate pressure CPMs face to increase efficiencies and cut costs.



Internally driven sustainability initiatives can help companies stay at the forefront of their industries. By claiming the first-mover advantage, organizations operating with sustainability in mind can also stay ahead of their competition. A company's commitment to sustainability is increasingly valued as evidence of long-term success. The Dow Jones Sustainability Index (DJSI), the Carbon Disclosure Project and the Wall Street Journal's List of Green Businesses propel companies with strong sustainability programs into the spotlight for their efforts. The DJSI, in particular, functions as a benchmark for companies wishing to pursue sustainable best practices. It exclusively

lists companies that have fulfilled certain sustainability criteria better than their competitors have. These evaluations raise the bar for sustainable development every year<sup>12</sup>.

These indicators demonstrate how sustainability initiatives are an investment in brand development. As customers continue to recognize the benefits of sustainable products and operations, properties that can tout these benefits will realize a competitive advantage. For example, prospective tenants are willing to pay more to lease space in a LEED-certified building<sup>13</sup>, and consumers are willing to pay more for clean energy<sup>14</sup>. Employees and tenants often want help to improve facility or city diversion rates through additional recycling or composting and to reduce energy consumption when possible. With a sustainability edge, commercial properties will also have the opportunity to penetrate new markets by meeting the demands of sustainability-minded governments, consumers and businesses alike.

## Barriers to Success

There are several challenges to implementing a sustainability program for a commercial property including budget restraints, tenant and employee engagement and logistics. The most often-cited challenge is the financial investment required to make operational or process changes<sup>15</sup>. CPMs are faced with increasing utility costs, increasing tenant and employee demands and decreasing annual budgets, which often forces them to postpone or cut voluntary improvements.

Modifying or influencing tenant and employee behavior can also prove challenging. It is important to communicate new initiatives through education and training programs, but these alone are not enough. It is important for CPMs to first gauge tenant and employee perspectives to build a strategy for implementing sustainability initiatives to avoid program inefficiencies. Transparency is also crucial since employees need to understand and trust the company's commitment<sup>16</sup>. The CPMs need to have committed ownership and management support and direction to positively influence participation. Top-down expectations are influential, especially alongside regular and frequent progress updates to keep employees engaged.

Many facilities are also faced with the challenge of adjusting protocols for unionized staff or janitorial services. New tasks or expectations require working with Human Resource Departments and unions to determine what changes are within contract regulations. While program implementation can be organized around contract renewals, these discussions can result in a renegotiation and elevated program costs.

Regardless of a CPM's personnel and property tenant structure, the logistics of adding sustainability initiatives to already demanding schedules presents challenges. If facilities are understaffed, adding or changing tasks related to energy consumption reductions and recycling or organics diversion improvements can seem daunting. In actuality, a comprehensive sustainability program strives to consider all of these logistics prior to implementation, and prioritizes adjustments that maintain or increase operational efficiency. Sustainability initiatives must be designed to incorporate solutions to these challenges and any others that arise.

## The Starting Line

A thorough operational evaluation is typically the first step towards implementing an effective sustainability program. In order to establish objectives that drive sustainable improvements, CPMs should collect data related to the types and quantities of waste material generated as well as energy and water consumption. This provides a baseline by

which progress can be measured. External assessments are often advantageous because objective perspectives can discover inefficiencies that companies may overlook. By utilizing environmental building assessments, CPMs can realize a wide range of financial benefits. These include reduced expenditures on waste disposal, energy consumption, water usage, and maintenance, as well as decreased capital expenditures resulting from increased efficiencies<sup>17</sup>. With a baseline, CPMs can more readily identify short- and long-term goals with economic and environmental benefits. The goals will also help determine the appropriate metrics to use when measuring performance. A data-driven program using meaningful metrics will help hold tenants and employees accountable and identify areas that need modification or improvement in order to stay on track toward organizational goals. It will communicate progress and encourage the continued support of stakeholders.

## Keys to Success

To tackle specific issues with unique, site-specific initiatives, businesses can slowly become acquainted with a sustainability program by initially identifying and implementing simple adjustments. As an example, the EPA Solid Waste Hierarchy below indicates the preferred solution of managing waste is to reduce it at the source and reuse where possible; this approach can also be the easiest, most affordable option<sup>18</sup>.



**Avoiding material generation** in the first place removes unnecessary products from operations and immediately provides cost savings. A common example of this, beyond general removal of products that do not add value, is replacing paper towels with high efficiency hand dryers. If waste cannot be eliminated, CPMs should evaluate the quantity of products used and attempt to reduce consumption. When it comes to procurement, CPMs can make more sustainable choices such as providing reusable dishware and drink bottles or substituting disposable goods with durable or recyclable options.

**Reuse decreases waste hauling costs**, and recycling can provide savings by reducing disposal fees or waste service frequency and may provide rebates for some recyclable materials. A strong diversion program should cover materials generated in all areas of operation: batteries, fluorescent lamps and ballasts, electronic waste and even organics. Diversion programs for universal and regulated hazardous waste can protect commercial properties from liability concerns and help CPMs comply with local, state and federal regulations while also protecting the environment. After all of these solutions have been pursued, materials should enter the residuals stream for beneficial disposal methods (e.g., waste to energy or anaerobic digestion), with landfilling or incineration being the least desirable option.

The **support and encouragement of senior leadership** lends

credibility and impact to sustainability initiatives. Gaining top-down support demonstrates a commitment to sustainability that spreads to employees and tenants. Without buy-in from senior management, a sustainability program may not receive the attention and resources necessary to ensure its success.

Uniform **employee and tenant participation** is crucial to the success of any sustainability program. To complement top-down directives, training and educational engagement ensures all relevant personnel are aware of any new behavior expectations. Changing an organization's culture often involves overcoming a variety of challenges. To ingrain new or different protocols, training should be introduced to all new employees and tenants and reinforced on a regular basis. Regularly communicating progress towards diversion or consumption reduction goals can demonstrate that employee actions are making a positive impact. Encouraging staff and clients to offer suggestions for improvement promotes a collective ownership of progress. Ideally, CPMs should integrate sustainability goals into existing operations. These types of initiatives have a greater chance of success if they are considered part of day-to-day activities and not viewed as an extra or optional request. Sustainability goals should be part of the business imperative throughout the organization.

CPMs can facilitate adopting new processes with thorough evaluations. "Upstream" improvements can be implemented by assessing the products and services used by the property. Supplier scorecards and questionnaires allow CPMs to objectively evaluate suppliers, though a growing number of vendors expect sustainability evaluations and can work on contract language to ensure CPMs achieve their site-specific goals.

## Reporting

There is a growing expectation that organizations establish and maintain credibility through comprehensive sustainability reports. These reports communicate a company's economic, environmental and social impacts along with their efforts to mitigate concerns. Similar to financial reporting, "systematic sustainability reporting gives comparable data, with agreed disclosures and metrics"<sup>19</sup>. Transparency about the various impacts associated with a property's operations is increasingly expected by stakeholders and the public.

Because data points are typically consistent year to year, sustainability reports can be used to monitor improvements in addition to disclosing performance. Sharing goals, approaches, and successes allows CPMs to evaluate opportunities for improvement and to plan for the future. With a well-designed reporting structure, properties can provide transparency and communicate achievements.

The **Global Reporting Initiative (GRI)** provides guidance on an internationally recognized sustainability-reporting framework. Using this framework, companies report sustainability performance in a format that can be audited and verified by a third party. GRI suggests a five-step process for CPMs wishing to get started with sustainability reporting:

- **Prepare:** Think about your organization's major sustainability impacts and identify relevant topics to be addressed. Develop an action plan on how to report on the applicable metrics and hold an internal meeting to kickoff the plan.
- **Connect:** Identify and engage with key stakeholders. Conduct a discussion to learn about their priorities. This will help determine which aspects of your sustainability performance should be managed and highlighted in the report.
- **Define:** Based on management perspectives and stakeholder discussions, your organization should complete an assessment to identify topics to be covered in the report. Key stakeholders can establish important external elements to consider, while senior leadership can identify and define central internal topics. An

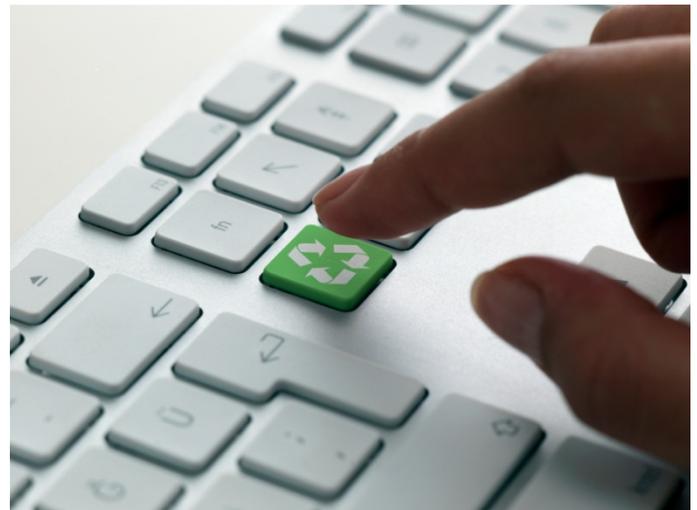
understanding of the organization's scope of influence and commitments will govern how activities should be covered in the report.

- **Monitor:** After identifying report topics, it is important to inspect and verify organizational processes and systems. High-quality data should be recorded and monitored. Once the data is analyzed, CPMs can act on the appropriate sustainability goals.
- **Report:** Write the report based on the data gathered on the topics identified during the Connect and Define phases. Once the initial report is completed, the organization will have resources in place to continually evaluate its sustainability performance and impacts<sup>20</sup>.

Benefits of this exercise typically include enhanced brand image and loyalty, increased stakeholder understanding of both tangible and intangible organizational assets and mitigation of negative environmental and social impacts. A company can derive benefits from completing annual sustainability reports if it is leveraged as a management tool. For example, a report can identify upcoming risks and opportunities, advance corporate business strategy, help avoid implication in environmental or social scandals, assist with benchmarking and help streamline internal processes<sup>21</sup>.

There is an array of tools available to assist CPMs with data collection and support sustainability-reporting efforts. GRI offers a range of mechanisms that support reporters, including training, publications and business-intelligence (BI) software. For monitoring progress toward goals, various BI software tools and cloud-based data management systems can provide current operations snapshots and visual data. Data collection does not, however, need to involve additional software investments. Some CPMs have had success with simple spreadsheets that compile and track data for ease of reporting.

Sustainability reporting can become a resource-intensive process. Many CPMs find it worthwhile to hire a consulting firm for assistance with preparation and report organization. Because of the effort required to understand reporting guidelines, gather data and write



content, utilizing an external consulting firm can save time and money, and result in a more thorough, accurate product. A third party can also provide extra benefit by validating and verifying the report.

## Certifications

As with sustainability reporting, there is a growing importance attached to obtaining building or other environmental certifications. A variety of certification programs has emerged in the United States, but pursuing the most beneficial certification for a facility can be challenging. It is essential to consider the building's type, age and

location, its tenants and industries, and the goals attached to achieving a given certification.

The federal government is taking a lead on demonstrating the value of sustainability building certifications. In October 2009, President Obama signed Executive Order 13514 "Federal Leadership in Environmental, Energy and Economic Performance." The Order was established as "an integrated strategy towards sustainability in the Federal Government and to make reduction of greenhouse gas emissions (GHG) a priority for Federal agencies"<sup>22</sup>. The agencies will be requiring facilities' management to meet a series of goals and deadlines between 2009 and 2030.

Currently, the most widely recognized building certification program is the **U.S. Green Building Council's Leadership in Energy and Environmental Design (LEED)**. LEED offers nine different rating systems and four levels of certification. It promotes a whole-building approach while providing flexibility by offering multiple credits within five performance areas. At the same time, LEED has a rather intensive review process and is relatively expensive compared to other certification programs.



Another widely recognized program is **the Energy Star Certified Building Program**. Energy Star is a joint program of the EPA and the Department of Energy, and offers free online portfolio management software. Energy Star's Portfolio Manager will benchmark the facility against similar building types and award an Energy Star Building Certification to the top performers within each **building category**.

Another popular certification program among commercial properties is the **Building Owners and Managers Association (BOMA) International 360 Program**. BOMA's 360 Program is open

to all occupied commercial buildings, regardless of ownership or BOMA membership. It takes a holistic approach by evaluating building operations and management, risk management, training and education, energy and environmental sustainability, as well as tenant relations and community involvement.

The Green Globes environmental assessment and rating tool is maintained by the **Green Building Initiative (GBI)**, a non-profit organization whose mission is to accelerate the adoption of sustainable building practices for residential and commercial construction. This web-based program requires a third party, on-site assessment and supports three buildings types (new construction, existing buildings and healthcare) with four levels of certification. Green Globes is competitively priced, and considered an affordable alternative to LEED<sup>23</sup>.

**Global Real Estate Sustainability Benchmark (GRESB)** is an organization committed to assessing the sustainability performance of real estate portfolios (public, private and direct) around the globe. The benchmark is used by institutional investors to engage with their investments with the aim to improve the sustainability performance of their investment portfolio, and the global property sector at large. It includes more than 30 institutional investors, a large number of industry stakeholders (consultants, vendors and non-profits) and all major industry associations around the globe. GRESB uses the data submitted by companies and funds to assess and benchmark the sustainability performance of the global real estate sector<sup>24</sup>. GRESB is working with the GRI to make sustainability reporting in the global real estate sector a standard practice.

Certified green buildings demonstrate an organization's commitment to tenants and customers. A recent study presented by the USGBC and CB Richard Ellis, showed occupancy rates in green buildings increase as much as 2.15 percent over the general market and rental rates of green buildings increase as much as 7.38 percent over the general market<sup>25</sup>. Additionally, green buildings report above average tenant and employee satisfaction in the workplace, which can lead to greater levels of productivity.

## Conclusion

Commercial Property Managers who understand the benefits afforded by sustainability programs are well positioned to sustain their properties and to reap the increased benefits of having such programs in place.

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