Sustainability and What it Means for Property Professionals

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Key words: sustainability, impacts, property professional.

SUMMARY

The impact of sustainability covers a wide spectrum of activity by property professionals. This paper considers some of these changes with the aim of prompting debate on how these and other changes will impact on our work.

Although there are specific instances where existing circumstances, or prospective change, will affect the property profession we should not forget our place in the business community as a whole. This will include the perception of our companies or employers, staff welfare and how our business life interacts with the community in a social context.

Areas that are likely to come to the fore as general business matters include:

- Taxation policies
- Government contracts
    - The green credentials of suppliers
    - How the necessity for sustainability is specified in contracts
- Legislative changes
- Financial market expectations
- Public expectation
- Financial imperatives
- Corporate Social Responsibility
- Quality control

In addition the specific issues we can expect to face as property professionals are likely to be:

- Cost Efficiencies such as:
    - The choice of materials
    - Renewable energy
    - Waste management
- Skills and labour plans for the construction and management of assets
- Presenting sustainability as part of bids
- A reputation for innovation
- The valuation benefits of sustainable properties
- Consultation on major projects
- The environmental impact of projects
- Transportation links

As property professionals we will be expected to be innovators and implementers on behalf of governments and our own employers. Therefore we should be considering how we rise to these challenges and put ourselves in the best position to drive through changes either pro-actively or in response to changing circumstances.

Durabilité et ce que cela signifie pour des professionnels de propriété

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Mots clés : durabilité, impacts, professionnel de propriété

RESUME

L'impact de la durabilité couvre une gamme étendue d'activités entreprises par des professionnels de propriété. Cet article considère certains de ces changements dans le but de provoquer un débat sur comment ceux-ci et d'autres changements modifieront notre approche.

Bien qu'il y ait des instances spécifiques où les circonstances, ou un changement potentiel, influencera la profession de la propriété, nous ne devrions pas oublier notre place dans le milieu d'affaires. Ceci inclura la perception de nos compagnies ou employeurs, le bien-être du personnel et comment la vie commerciale interagit avec la communauté dans un contexte social.

Les thèmes qui sont susceptibles d'émerger comme des questions d'affaires générales incluent :

- Politiques fiscales
- Contrats du gouvernement
  - Les qualifications vertes des fournisseurs
  - Comment la nécessité pour la durabilité est indiquée dans les contrats
- Changements législatifs
- Espérances de marché financier
- Espérance publique
- Impératifs financiers
- Résponsabilité
- Contrôle de qualité

En outre, les questions spécifiques auxquels on risque de faire face comme des professionnels de propriété sont:

- Rentabilités comme:
  - Choix de matériaux
  - Energie renouvelable
  - Gestion de déchets
- Qualifications et plans de travail pour la construction, et gestion des capitaux

- Présentation de la durabilité en tant qu'élement des offres
- Une réputation pour l'innovation
- Les avantages d'évaluation des propriétés soutenables
- Consultation sur des projects principaux
- L'impact des projects sur l'environnement
- Liens de transport

En tant que professionnels de propriété on risque de tourner vers nous car nous sommes innovateurs et applicateurs au nom des gouvernements et de nos propres employeurs. Par conséquent nous devrions considérer comment se lever à ces défis et se mettre à la meilleure place pour pousser ces changements, soit de manière proactive, soit en réponse aux circonstances changeantes.

Sustainability and What it Means for Property Professionals

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1. INTRODUCTION

As sustainability is the ability to maintain, and where possible enhance the earth's income rather than eroding its capital, this paper considers the challenges to that continuum and discusses what this may mean to the property profession. It also considers the impact sustainability, or the lack of it, on the property product we deliver.

Whilst the days of dismissing sustainability as a side-show are thankfully over how the principle is adopted provokes many responses under its name. For example the US Government has argued that it is not financially sustainable to adopt the Kyoto Agreement whereas others have argued that it is environmentally unsustainable not to do so. Inevitably this interpretation will continue, although as non sustainable resources such as fossil fuels dwindle the countries and organisations that have taken a longer term approach are likely to enhance their stock of capital and revenue assets until others catch up.

Some of the examples and instances in this paper may find more resonance with property professionals familiar with the movement for sustainability in the UK. Nevertheless international examples have been adopted where possible.

2. PROPERTY PROFESSIONAL IN BUSINESS

2.1 Government Initiatives

2.1.1 Taxation and Subsidies

It has been argued by the National Environmental Research Institute in Denmark that taxes on CO_2 emissions in Finland and subsidies in Denmark have greatly reduced the levels of CO_2 in the air. With Sweden adopting taxes on energy, Estonia introducing environmental taxes and the EU now altering the Common Agricultural Policy to favour environmental works a strong message is being sent on the likely future challenges. Currently some methods of renewable energy, such as wind turbines, have a long pay back period on the capital expended. Therefore increases in the tax on non renewable sources and commensurate tax breaks on renewable energy sources could very quickly alter the specifications for new buildings. In order to anticipate this move companies involved in property construction or investment should be regularly reviewing the most appropriate forms of energy generation and carrying out financial analyses of different alternatives.

2.1.2 Green Credentials of Suppliers

Even though a supplier can provide cost-effective solutions for a public sector client there is now an ever increasing onus to supply details of the policies, procedures, ethos and supply chain vetting that marks them out as sustainable. Without this it is unlikely that suppliers will be chosen to deliver large public sector contracts. Other sustainable factors that will also become more important are locally tailored solutions. This may include local banks in financing and ensuring a locally based team delivers the solution.

2.1.3 Specification in Contracts

Although the desire for sustainable solutions has been stated in UK Government contracts for some time like other evaluation criteria the bidders are not always clear. Bidders are therefore not sure whether this is a sop to sustainability or whether the award will genuinely consider it in the criteria.

2.1.3.1 Affordability v Sustainability

Probably the largest intangible for investors is whether the desire for sustainable solutions is matched by the willingness to pay extra for certain elements that are not cost effective. Even though the choice of materials can have a major benefit on a long term government contract (e.g. the UK Private Finance Initiative – PFI) others such as the type of energy source can be less tangible. Therefore, unless it is a requirement in the contract to use renewable sources investors, public sector officials responsible for procurement will opt for the apparently cheaper option. This choice will change if the tax alterations referred to above are implemented.

2.1.3.2 Weighting in Evaluation

Even with all other factors remaining the same the commissioning body could opt for a sustainable solution and weight this accordingly in the evaluation of the bids. If it is made clear to the bidders that it accepted that this could mean a higher contract price this will give a clear mandate to take such an approach. As property professionals and bidders it is incumbent to make the impact of this clear to bidders at an early stage otherwise all the good words will be lost when the financial evaluation reverts to cost only as the defining factor.

2.1.4 Changing Legislation

In addition to the persuasive power of taxes the even more persuasive legal requirement of enforcing a sustainable approach is often adopted. For example the requirement in the UK for the vendors of dwellings to disclose the energy efficiency of properties, when selling after June 2007, is likely to focus the mind of purchasers on the comparative merits of properties. Equally the more widespread requirement to prepare Environmental Impact Assessments for larger projects means potential work for the property profession and an additional entry in the project timeline.

2.2 The Weight of Expectation

2.2.1 Comparison

The adoption of benchmarking, such as the Dow Jones Sustainability Index (DJSI), now allows analysts to make judgments on the relative performance of major companies on sustainability. In larger companies great store could be placed on achieving a higher than average rating and therefore more resources will be devoted to achieving this. Chief Executives are now being quizzed on this by major investors. The implications for property professionals are likely to be centred on the occupation of the operational property. In the case of property investors, however the implications could be even greater. Some of these are set out below.

2.2.2 Annual Report

Even if companies are not assessed as part of a comparative index there is an increasing expectation that annual reports contain details of the progress an organisation has made on sustainability. This will often include anecdotal differentiators that the Press can seize upon for a "green" story.

2.2.3 Investment Funds

Sustainability is a differentiator being considered by investment managers keen to sell products to an increasingly aware market. As with ethical investment the initial market may be skeptical however it appears that the generation currently in education is showing that it is prepared to harness its buying power along sustainable principles. With this in mind it is important for property professionals to make clients aware that properties with a high maintenance or energy requirements could experience a disproportionate fall in value if the market moves in this direction.

2.2.4 Staff Recruitment and Retention

The change in attitudes is also evident in the way potential employees assess a potential employer. In recent survey 1 in 4 candidates rated the social and environmental conduct of an employer a priority in their choice of workplace. The training of staff, succession planning and appropriate reward structures will also assist an organisation in retention and the expensive repacement, both in time and money terms, of valued staff.

2.3 The Economics of Sustainability

If the winning of contracts from government sources, and increasingly from large private companies, depends upon sustainable credentials then for any firms dependent on such contracts it is a business necessity to have policies in place and as well as evidence that these are implemented.

2.4 Corporate Social Responsibility

2.4.1 Exceeding Minimum Standards

Whereas an historical practice of many organisations has been to abide by the law and required standards it has not been to exceed them. This has often been on the ground of cost. Now that the reputations of companies, such as those in the PFI market, are reliant on the long term relationships there is a realisation that to be sustainable in the long term does not mean applying the lowest standards possible.

2.4.2 Environmental Awareness

The power of adopting an environmentally sensitive approach to the issues such as biodiversity, habitat protection and the reduction in use of harmful chemicals has been adopted by companies and politicians alike. It does not necessarily cost a great deal but the positive benefits in public standing can be immense. These more enlightened approaches are expected to become the norm, therefore incorporating such an approach now and keeping ahead of the market could give competitive advantage.

2.4.3 People Power

Adopting a supportive and flexible approach to staff is seen as the beginning of a socially minded organisation. Working with volunteers, supporting the community and involving staff in initiatives that make a difference in the local or national communities evidences more socially responsible organisations stand out from others.

2.5 Best Practice

2.5.1 Lower levels of failure

By specifying above the minimum for the sake of the long term will mean that there are likely to be less failures for the client and consequently less penalty points imposed upon suppliers.

2.5.2 Assists in Evaluation by Clients

Examples of best practice such as the adoption of ISO 14001 will enable clients, when evaluating bids, to establish the providers competent in sustainability from those that merely pay lip service to taking this approach.

2.5.3 Insurance Benefits

By adopting sustainable practices and approaches the costs of insurance would be expected to fall both for accreditation and as a result of sustainable practices such as risk assessments. If

the litigious systems of other countries follow the practice of the USA then any new buildings not designed sustainably or old buildings refurbished without the future care of users in mind could be pots of gold for lawyers in years to come.

2.5.4 Workforce Attendance

Linked to the above is reduced accidents and improved motivation. This provides the impression that an employer is taking a more enlightened approach could help reduce absenteeism.

3. PROPERTY PROFESIONALS AS EXPERTS

3.1 Cost Efficiencies

3.1.1 The Choice of Materials

Historically building contractors have been able to avoid the long term implications of their short cuts in the choice and use of materials. The advocacy of long term design, build, finance and operate contracts has forced procuring bodies and contractors to take a more sustainable approach. The choice of materials is also under scrutiny not only for longevity but also the ethics of its sourcing. The credit a provider gets for using sustainable timber or recycled screed made of crushed glass is now being recognised but not yet in the volume to be market changing.

3.1.2 Local Sourcing

Local materials from sustainable sources will score highly in any evaluation of bids that include sustainability as a key component. Procuring bodies need to take care when negotiating the details of a contract and ensure that this element remains; otherwise the worthy aims of the bidding document will soon be replaced by the demands for value engineering. Over the lifetime of a building there is likely to be the replacement of certain components. If these are locally obtained at the outset then the likelihood that these can be efficiently replaced increases.

3.1.3 Lifecycle Costs

Considering running costs and the replacement of components rather than just the initial capital cost has made the difference in the sustainability of many public buildings. In the case of PFI contracts this may initially be for 25 years however it will be interesting to see how the costs of running a building constructed for 60 years will vary in the years following the first concession period. Provided contracts are worded to ensure there is an incentive for providers to reduce energy costs both the commissioning body and the contractor can benefit from increased efficiency

3.1.4 Renewable Energy.

Bearing in mind that 50% of Co2 is produced as a result of the heating, lighting and cooling buildings alternative sources of energy could make have significant impact on the environment. Although targets in some countries for the conversion to renewable energy have been introduced radical changes could happen with a shift in the tax system in favour of renewable sources

3.1.5 Waste Management and Recycling

With the dumping of waste unsustainable and the treatment of waste as energy still controversial, as far as the public is concerned, much greater emphasis is placed on how we deal with our waste. Many countries, such as Germany and Austria, enforce the separation of waste to make its management and recycling easier. Although such bulking does make dealing with waste easier the major breakthroughs in the treatment of the residual product will have a major impact on waste management. Even so the design of buildings either through legislative or social pressure will need to incorporate waste storage and separation features

3.2 Skills and Labour

3.2.1 Local Recruitment

The globalisation of labour in the construction industry and the downward pressure on wages this causes makes it difficult to make an economic argument for the employment of local labour. Whilst this may be a survival approach in the short term it may not be sustainable in the long term as the economies of the countries providing the labour flourish and many workers return to their states of origin.

3.2.2 Training Programmes

Even if continuing sources of immigrant labour proves sustainable those who remain will need training. This will include in health and safety, but also new skills as techniques and material change or adapt. For example the popularity in recent years of concrete finishes was in part due to the shortage of plasterers in relation to providing a more traditional appearance.

3.3 Showing our Wares

3.3.1 Promotion In Bids

Evidencing that we and our proposals are environmentally friendly and sustainable has never been more important when competing for large contracts. Our policies will be examined, our examples visited and accreditation verified to confirm if we are the sustainable businesses we claim to be. With sustainability often a basis for evaluation in its own right it is now

imperative that these stands are made explicit for the client to appreciate the efforts we have made to make ourselves sustainable.

3.3.2 Promoting Property

Likewise, the requirements for energy consumption data to be given in the Housing Information Pack in the UK will feed the demand for further data on component breakdown and longevity data plus statements on waste facilities. Already the UK BREEAM (Building Research Establishment Environmental Assessment Method) makes these comparative assessments, however the current acceptance is for the overall rating.

3.4 Innovation

3.4.1 Reputation in the Marketplace

The use of PFI and Partnership approaches to construction has increased the importance of the reputation of companies as innovators in long term relationships. All companies and governments like to bask in the glory of a building that is well designed, efficient and wins awards. It is, however, often the job of the property professionals to convince the client that a little extra effort, and sometimes initial expenditure, is worth it when departing from the tried and tested approach.

3.4.2 Commercial Advantage Over Competitors

Innovative approaches to providing sustainable solutions can ensure that the price of the end product is cheaper. Examples include the on-site crushing and re-use of demolition material to ensure that it does not end up as land fill. In addition there is a saving on the purchase of new material to perform functions such as hardcore.

3.5 Valuation

3.5.1 RICS Green Value

It has been contended that it is difficult to quantify the valuation benefits of sustainable buildings. Recent studies, however, by the RICS, using mainly Canadian properties as examples, and Forum for the Future in the UK have suggested there is evidence confirming the financial benefits of investing in sustainable buildings. As this body of evidence increases and the quantifiable benefits are understood the likelihood of sustainable options being chosen increases.

3.5.2 Future Proofing

Choosing the more sustainable options for buildings is a factor in increasing the long term value and will enable properties to be adapted to meet future expectations and changes in

legislation. The mood of change is already evident and it will be expected that advisors will warn of the consequences of short term plant or materials decisions.

3.5.3 Tenant Appeal

Although surveys can be carried out on the preferences of occupiers it is when the choice of buildings by tenants is significant enough to affect value and demand that the two tier market will emerge. The choice of investors to recover their positions in respect of the poorer performing buildings could surprise the suppliers of sustainable products and have a similar impact on building costs to the world increase in steel prices.

3.6 Interaction with Communities

3.6.1 Consultation

There is an increasing requirement of legislative systems, and of a public who want to be involved, to be consulted as part of the social sustainability considerations of major projects. Rather than taking the approach of confrontation in trying to achieve relevant developing a more inclusive approach will not only ensure that a programme timetable can be more accurately predicted but also engender goodwill of local communities and officials. The sustainability of this over time will mean there will be a distinguishing between companies prepared to engage and those who relish confrontation.

3.6.2 Staff Involvement

Ensuring that staff are engaged in the process of deciding on property solutions will minimise the chances of disgruntlement further down the line. There is a tendency for larger projects to include consultation with staff groups or unions but smaller projects are presented to staff as a solution. This varies by country depending on the labour laws and requirements imposed.

3.7 Transportation

3.7.1 Continued Reliance on Roads

The reliance placed on roads and the demand for access to facilities by road will place an unsustainable burden on roads that will inevitably impact on property. The results can already be seen in the gridlock that occurs close to major regional shopping centres on busy trading days. The lobbying powers of road hauliers has also meant that there has been a tendency to build for demand rather than provide a long term solution. Aside from the increased pollution of road use the ability of a country's economy to function can be hampered. In some cases the infrastructure is incapable of being improved without a major impact on the environment and the local economy during the construction period.

3.7.2 Changing Fuels

The increasing use of bio fuels will impact on the specialized property market in that the location of fuel tanks will be close to the source rather than at ports where existing fuel is imported. Also if buildings are adapted to run on bio fuel there will be issues of distribution and storage built into the design of new buildings and adaptations to existing properties.

3.7.3 Infrastructure Changes

The importance of locating close to nodes of public transportation will increase as the requirement for planning and building permits to contain test of sustainability increases. Large schemes will need to pass the tests and may only be able to satisfy these through the financing of major public sector infrastructure works. It also likely that there will be an increase in property prices around transport hubs. Witness the interest in UK port and airport operating companies from international investors realising the real estate benefits of such proximity.

3.8 Climate Change

3.8.1 Ground Conditions

Recent dry summers, in parts of the world not used to such weather, have had an impact on the structural stability of properties. This includes the increase in subsidence claims in areas with a clay based soil where this has dried out causing shrinkage of the ground and cracks in foundations. It has also created problems with functions requiring water, such as cleansing in areas with water restrictions. This could lead to the modification of components and design to accommodate climatic shifts.

3.8.2 Insulation

The demand for greater insulation is expected to increase following inclusion in property information packs. This will also be the case as summers become hotter and other area experience more extreme winters. There is an expectation that the insulation materials themselves will also become more sustainable rather than be oil based.

3.8.3 Flooding

Greater knowledge of flooding zones means that if a property is perceived to be in a high risk location remediation measures will be expected by funders, purchaser and occupiers. Some may even be dismissive if a property is in a flood zone purely because their investment policy is so risk averse.

4. CONCLUSION

With the ever increasing awareness of consumers and investors the importance of the sustainable credentials of buildings will increase. As professionals we need to be up to date with these changing expectations as otherwise we could be failing in our duty to best advise our clients. As more components become available and are proven as reliable and cost effective alternatives we will be expected to promote the use of such products to achieve more sustainable buildings.

Our processes and procedures will also need to match the changing world of sustainable expectations. Without being able to demonstrate how we comply with the standards, and arguably exceed them, there is a likelihood that we will loose business.

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BIOGRAPHICAL NOTES

Experience

4 years in private practice property consultants in the UK
14 years as property advisor in local government and public sector
Currently working for an infrastructure provider specialising in PFI

RICS
Since 1996 to date: Member of the Environmental Appraisal Panel followed by the Environment Faculty Board

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