

Sustainability, the criterion for improving real estate yields



A. van Driel MRE MRICS
Ad van Driel started his 40-year career in construction and real estate in 1970 in the contracting sector. After that, starting in 1982, he worked for more than 15 years at the real estate investment department of SFB Vastgoed, first as a new development and maintenance manager and later as the COG portfolio manager. He joined the Kats & Waalwijk Group in 1997 in the capacity of real estate management director, and then went on to become general director. After Grontmij took over Kats & Waalwijk Group, Mr. Van Driel, as division director, became responsible for all of Grontmij's construction and real estate in the Netherlands. These last 3 years, he has coordinated Grontmij's construction and real estate activities in its ten home countries in his capacity of business development director. He also uses his extensive expertise at the strategic level in the healthcare and public sectors. In addition to his managerial experience, Mr. Van Driel has mainly developed as an expert in terms of the strategic use of real estate as a corporate asset and/or a means to invest. He is one of the founding fathers of professional real estate management and later of independent real estate portfolio management. He has held various lecturing positions in this field since 1990. He is also the author of the book 'Strategic use of real estate'.

Over the past decade, the concept of 'sustainability' appears to have been reduced from an explicit label for social value to a vogue word. This is due to the fact that the word is being used left and right, with the risk that the necessary focus on sustainability will eventually fade into the background.

Awareness

The growing global awareness with respect to the problems involved in climate change force us to take sustainability seriously – now more so than ever. Sustainability refers to the scarcity of our natural resources, the importance of a pure atmosphere and to ecology. Sustainable development focuses on leaving our children and grandchildren a world that is fit to live in. The adage “we didn't inherit the world from our parents; we're borrowing it from our children” makes our responsibility very clear.

Global awareness in a broader sense came with Al Gore's film 'An Inconvenient Truth'. McDonough and Braungart wrote the book 'Cradle to Cradle', which boosted attention for the responsible use of materials. In 2009, the film 'The Age of Stupid' helped increase the pressure on the World Summit in Copenhagen to quickly take concrete measures. While the actual results of the summit of world leaders were disappointing, the subject was emphatically put back on the global agenda.

Sustainability is not limited to saving energy, reducing CO2 emissions, waste processing or applying recyclable materials. Sustainability expresses itself in a certain approach, integrity, respect for people, the environment and culture (“People, Planet, Profit”). Sustainable development involves a proper balance between ecological, economical and social interests.

Real estate must become more sustainable
Real estate is one of the main causes of energy consumption and pollution. It is crucial

.....

that we tackle this problem. Real estate must become more sustainable! A few years ago, Jeremy Rifkin, the President of the Foundation on Economic Trends and the author of many books, addressed an INREV conference. This past decade, Rifkin has been an adviser for the European Union and European leaders like Sarkozy, Merkel and Zapatero, among other things. His inspiring lecture about climate change and his appeal to the real estate sector to take the necessary actions for our children and grandchildren deeply touched the audience. Many experienced this as an important wake-up call, inviting them to take action. Fortunately, global awareness of the need to make real estate more sustainable, in the broadest sense of the word, has been increasing these past years.

Green developments

Owners, investors, property developers, housing corporations, governments, businesses and users of real estate now focus on improving the sustainability of their real estate, encouraged to do so by changing legislation and social pressure. Individual actions in this respect, whether they are

'marketing-motivated' or not, are slowly becoming common practice in the sector.

The first news about 'green development' – which focussed on various aspects of sustainability – was truly spectacular. The emphasis was on energy savings and reducing CO2 emissions. Many countries started to develop standards. In the Netherlands, we have the Energy Performance Standard, CO2 Standards, GPR Building, GreenCalc, the government's Sustainable Purchasing Policy, and others.

The various publications and presentations of McDonough and Braungart have also boosted attention for their 'Cradle to Cradle' initiative: maximum focus on the recyclability of materials to be used ("Waste = Food").

In the end, however, the question remains with respect to developing new objects: just how green is 'green'? Experts have observed that many developments labelled 'green' are not nearly as sustainable as they were claimed to be. There is a need to measure sustainability in order to separate the wheat from the chaff and establish adequate targets with respect to improving the sustainability of real estate.

Numbers are needed

The great importance of sustainability means that we need reliable indicators and benchmarking. It is not enough to say that development or exploitation is 'green'. For some areas of sustainability, such as energy consumption, reliable indicators have already been developed and are now available (Energy Performance Standard). However, there is also a demand for a way to measure, assess and compare the various aspects of sustainability, both among the owners and the users of real estate.

The object of screening the sustainability of real estate is to improve real estate sustainability and thus to improve the environment. In other words, 'assessment is a means'. Reducing exploitation costs and increasing the value of real estate play important roles in this. Both the reduction of exploitation costs and increasing value are often subject to unreasonable expectations.

Social and financial yields

Economic and commercial factors are very important to owners and users of real estate. Sensible investments in sustainability will pay for themselves in a reasonable amount of time. Measures should result in social and financial yields. I believe that within a couple of years,

(commercial) real estate will no longer be sold and/or leased without a sustainability certificate. Improved sustainability eventually leads to improved yields (IRR).

In summary, it is necessary for owners to improve the sustainability of their real estate, because of the:

- contribution to improving the environment;
- reduced operating costs;
- reduced energy consumption;
- improved leaseability/saleability;
- improved overall gains;
- image of sustainability towards shareholders / users.

Improving sustainability is important for lessees, because of the:

- contribution to improving the environment;
- improved working and living environment ("wellbeing, healing environment");
- reduced exploitation and maintenance costs;
- vision on sustainability towards employees and customers.

Making real estate more sustainable

It is very important that owners and users gain insight into the level of sustainability of new projects, as they would gladly notify the public of the high level of sustainability of their new buildings. It is even more important to improve the sustainability of existing real estate. In its publication of June 2009, the IVBN (Association of Institutional Investors in Property in the Netherlands) named 'improving the sustainability of existing real estate' as its key theme for 2010.

If investors, corporations, governments and other property owners were to start improving the sustainability of existing real estate, then the sheer scale of this would certainly make a big difference. This trend will certainly become visible on the international level in the years to come. Improvement starts with measuring and benchmarking the various aspects of sustainability. This will also bring to light the effects of the measures that have been taken.

Measuring methods

Various systems have been developed worldwide over the past years. The most important concern LEED and BREEAM. There are also national methods, such as DGNB in Germany, Green Star in Australia, BEAM in Hong Kong and so on. In practice, LEED has become the most commonly used method in

the USA, while BREEAM has become the main method for Europe.

Various studies (by the Delft University of Technology, among others) have compared the available systems. These studies prove the benefits of BREEAM for Europe. It is based on European regulations. The climatological conditions differ within Europe, so it is important that each country takes a tailored approach. Laws and regulations furthermore differ per country as well. BREEAM allows for this and offers the possibility of custom analysis and yielding comparable output. This is important in assessing international real estate portfolios.

International applicability and comparability are very important, particularly to international parties. Scale matters for reliable benchmarking. There is another system, The Third Dimension, which was developed by Jones Lang LaSalle. However, most investors indicate that they attach importance to the independence of the certifying organisation. After all, the Key Performance Indicators are important and confidential key details of projects and portfolios. This is why many prefer BREEAM or LEED.

Green Building Councils

The Global Green Building Council encourages the measuring of sustainability using the abovementioned methods in order to improve the sustainability of real estate across the world. National Green Building Councils have now been founded or are being founded in many countries. The Dutch Green Building Council (DGBC) was founded in the Netherlands in 2008. The DGBC currently has some 250 participants. The DGBC opted for the BREEAM method and has entered into an agreement with the BRE to represent BREEAM in the Netherlands. The DGBC develops custom-made approaches to BREEAM for the Netherlands (BREEAM-NL), trains experts and assessors and takes care of certification in the Netherlands on behalf of the BRE.

BRE

The BRE (Building Research Establishment) was founded in the UK in 1917. While it initially focused on researching building materials and methods, it later turned more to fire safety. In the early 90s, the company started to focus on sustainability in addition to fire safety. The method for measuring and certifying the sustainability of buildings was named BREEAM (Building Research Establishment

Environmental Assessment Methodology). The BRE became independent, as an independent non-profit organisation, in 1997. All of its profits are invested in new developments and any remaining income is given to charity.

BREEAM

BREEAM is a complete assessment of the sustainability of buildings and is carried out by trained and BRE-licensed assessors. BREEAM is available and comparable worldwide. Its quality is safeguarded by the BRE.

BREEAM New Build is the assessment method for newly developed buildings. This method has been used for many years and more than 10,000 buildings in the UK and continental Europe have already been certified.

BREEAM-in-Use is the method for assessing existing real estate as a starting point for improving sustainability. This method has been available in the UK since March 2009 and in the rest of Europe since June 2009. This is a major challenge, as making existing real estate more sustainable will, in view of the scale involved, make a true difference. Many improvements could be made with extreme ease!

Assessment criteria

BREEAM assesses real estate based on 9 sustainability aspects (see figure 1). The sustainability performance of a building (offices, industrial buildings, shopping centres, homes) is determined by awarding credits to the various aspects at a set weighing factor. This eventually results in a total BREEAM score. This score then determines the classification of the building. Credits are awarded only if the score per aspect is higher than the required national and European regulations.

Figure 1: The nine assessment criteria for the sustainability of real estate



BREEAM New Build

The process of assessing new developments starts in the design phase of the building, if possible. Improvement recommendations can still be processed at this stage. After an assessment and having collected evidence in writing, the BRE is informed of the results of the assessment by means of a report, and the building receives a certification and score.

The final score results in certification with sustainability levels ranging from:

- Fail
- Pass
- Good
- Very good
- Excellent
- Outstanding

BREEAM-in-Use

The main challenge for the coming years is improving the sustainability of existing real estate. Improvement starts with measurements. BREEAM-in-USE (BiU) is an excellent method for measuring and determining the sustainability of existing real estate. This applies both to individual objects and (international) real estate portfolios. After registration and proper instructions by a specially BRE-trained and licensed assessor, the property owner can start a self-assessment. The end results are assessed and checked by the assessor and will result in a classification and certification. Assessment of all aspects is done for the asset, building or organisation, as decided by the owner. The maximum score is six stars. Special rules apply to real estate portfolios, which are assessed by means of random checks (square root methodology). It takes an expert assessor to instruct the property owner properly beforehand and to recommend possible improvements with the report. It is very beneficial if the assessor is an expert in the field of energy management in addition to being a licensed assessor.

Specific real estate

In addition to assessing regular real estate (homes, offices, industrial buildings, shops), BREEAM has also developed methods (or is currently developing them) for assessing healthcare buildings, schools, prisons and the like. Assessing specific real estate (embassies, parking garages) starts with a custom approach, a so-called bespoke assessment. Furthermore, BREEAM has developed a system for measuring the sustainability of

areas for the UK (BREEAM-Communities). This system will be further developed into a tailored approach for other European countries.

International Sustainability Alliance (ISA)

The BREEAM method was originally oriented towards the UK, but has now expanded to over thirty countries. This has resulted in a need to internationalise the direction of the BRE organisation and to put the enormously valuable database for Key Performance Indicators (performance and consumption) and benchmarking to good use. Founding members who will take joint responsibility for developing ISA are needed, particularly for funding and proper development, which founding members will then naturally be the first to profit from the results. The founding members will also be part of the international board. It is worth mentioning that Jaap Gillis (chair of the DGBC and ICSC and COO of REDEVCO) has an important leading role in the establishment and further development of the ISA.

Taking up the challenge

Awareness of the need to improve real estate sustainability is growing fast. At first, the focus in this respect was exclusively on new developments. These days, real estate owners and users are taking up the challenge by working on making their existing real estate more sustainable. The motivation for this should be improving sustainability, not the score. Many improvements can easily be achieved when it comes to existing real estate. This also applies to older buildings that are not eligible for high sustainability scores. Considering the enormous scale, these 'small' improvements do matter a lot. And so we ought to assess all types of real estate, new and old, historic sites and high-tech buildings.

Crystal ball

In the time to come, real estate owners and users will increasingly take the opportunity to indicate the desired level of sustainability of their new property investments by mentioning certification results, such as 'LEED-Silver' or 'BREEAM-Excellent'.

The main advantage of this is the fact that they will no longer need to write a chapter about sustainability requirements in the Schedule of Requirements, but that mentioning the desired certification immediately covers all sustainability aspects. This also makes the sustainability requirements visible and comparable for everyone. It will allow companies to present themselves as upholding

these standards. Hopefully, the existing methods for assessing sustainability in the Netherlands will be integrated with BREEAM-NL. In other words: choosing a building of sustainability level 'BREEAM-Excellent' would mean that the EPD, GreenCalc, Sustainable Purchasing requirements and so on are linked to a set level.

The abovementioned methods will also be further developed in order to assess the sustainability of areas (BREEAM-Communities). This refers to new developments of business parks, residential areas and the like, but also to 'filler areas', the development of empty spaces in urban areas and the redevelopment of areas. These latter developments in particular can rightly be called sustainable, as 'new' developments, no matter how sustainable, still remove green areas from the total pool. This is why sustainable urban (re)development will continue to be a popular subject for seminars for some time yet. A lot of attention should be given to aligning the many developments in this field. The DGBC has important work to do here.

Another development in Europe is improving sustainability in the broadest sense for healthcare buildings, such as hospitals, clinics and care facilities. Newly developed buildings, but certainly existing buildings, as well. Healthcare buildings are not an end in themselves. They are means to support care-related objectives. In the end, the objective is making the best possible environment for the patient and/or care provider. A so-called healing environment is conducive to high-quality care and to improving patient safety. Sustainable buildings and management help to optimise care-related objectives and to improve the working environment for the care providers.

BREEAM-Healthcare and other methods will be further developed as a starting point for improving the sustainability of healthcare property. This will support the desired market developments in the healthcare sector. Care & Cure sector managers would gladly publish the sustainability of their buildings.

Sustainable buildings, homes, care centres and areas are a massive contribution to making our planet more sustainable. That is the main objective of all sustainability-related activities in the property sector. As described above, however, economic aspects matter as well. In the end, the demand will dictate the

supply. This means, in clear and simple terms, that the sustainability requirements of investors will determine the level of sustainability of newly developed buildings. .

The same applies to existing real estate. Lessees and users will start making demands of the objects they are to rent and use. Eventually, improved sustainability will result in reduced exploitation costs, retention and improvement of value and improved working and living environments. In other words: it will lead to improved social and financial yields.

Quote: There is a need to measure sustainability in order to separate the wheat from the chaff and for setting proper targets with respect to improving the sustainability of property.

Picture 1: Blackfriars, London: design for a hotel and apartments tower. Grontmij took care of the BREEAM assessment. Level: excellent.

