

Owner-Tenant Engagement in Sustainable Property Investing

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Abstract When it comes to sustainability, improving existing buildings is arguably more important than developing better new facilities. But that can be more difficult because it requires cooperation between owners and tenants. Fortunately, owners are finding ways to cooperate through green leasing, incentives, and educational programs. This paper presents eight examples from the United States, Europe, and Australia. They demonstrate that property firms can work with new and existing tenants toward greater cooperation around sustainable real estate concerns. Transformation to sustainable property investing will be a “sociotechnical” process. It will require technical skill to improve eco-efficiency, but also new social capabilities that facilitate cooperation among owners and their tenants. Fortunately, the cases presented illustrate ways this can be done.

This article presents leading examples of property owner-tenant engagement activities aimed at furthering Responsible Property Investing (RPI). RPI includes property investment, development, and management strategies that go beyond compliance with minimum legal requirements in order to address environmental, social, and governance issues in the course of profitable investing. This article supplements other material already published by the United Nations Environment Program Finance Initiative (UNEP FI) Property Working Group (PWG) on what leaders are doing in energy conservation, green building, fair labor practices, and many other aspects of RPI.¹ It also supplements prior efforts to document what signatories to the Principles for Responsible Investment are doing to apply those principles to property assets.²

Making improvements to existing building performance is arguably more important than efforts to acquire or develop new high performance or certified green properties. That is because existing buildings comprise the bulk of the market. “Unfortunately, retrofitting existing buildings is significantly more difficult than creating a new green building from scratch. For example, in existing multi-tenant commercial buildings, any sustainability retrofit or technology upgrades require the cooperation and participation of a wide range of stakeholders (i.e., owners, managers, occupants and contractors),” (Miller and Buys, 2008).

One reason investors must cooperate with tenants is that they do not fully control the properties they own. They share control with the tenants. In direct property investments, when owners do not occupy the property, they “sell the right” to

occupancy to a tenant through some type of leasing arrangement.³ Through the lease, owners give up most of the control during the lease period over how the property is used and managed.

Cooperation is also required because of what is variously known as the misplaced incentive, split-incentive, or principal-agent problem (International Energy Agency, 2007). This is where the economic benefits of energy conservation or other such conservation measures do not accrue to the person or organization trying to conserve. “For example, in an apartment building, where the tenant pays the utility bill, the landlord has little incentive to make energy conserving improvements; if the landlord pays the bill, the tenant has little incentive to be frugal in his use of energy,” (Blumstein, Krieg, Schipper, and York, 1980), or to make capital efficiency improvements that revert back to the landlord when they vacate the property. However, “if all parties are committed to improving the green credentials of the building, many of the problems around equipment upgrades and so on can be sorted out by negotiation. This is even true during the life of a lease; with consent the parties can always agree to depart from the strict wording of a lease,” (Hinnells et al., 2008).⁴

Cooperation is important for other reasons as well. It may be required if physical improvements are to be made while a property is occupied. It may be important for gathering baseline information on carbon footprints, transit use or other performance indicators. And perhaps most importantly, success with sustainability strategies often depends on the behavior of those occupying a property. This is crucial because the choices made by people living, shopping or working in properties regarding the appliances they install, the resources they consume, and the way they use building technologies can do more to explain property performance than the design and engineering of the buildings themselves.

Thus, improving sustainability in existing stock vitally depends on owner-tenant collaboration. In other words, “an active partnership...must be forged, a shift in social relations from adversaries to partners (which recognizes) the mutual cultural and economic benefits of concern with the efficient use of resources in the built environment,” (Guy, 1998).

Fortunately, leading property investors from around the world are developing techniques for achieving better cooperation. The remainder of this paper describes the work being done by several of them, in hopes of illustrating the possibilities that others might wish to adapt to their own situation. The cases are primarily drawn from among the membership of the UNEP FI PWG, which works collaboratively to find innovative approaches to issues around finance and sustainability in the property sector.⁵ Each case is based on material submitted by the firms and edited by the author. As with all case studies, readers must decide whether the strategies and results could work in their firms and circumstances. Nevertheless, these cases do illustrate that it is possible to achieve a good deal of owner-tenant collaboration around corporate responsibility and sustainability issues in property investing and development.

Land Securities

Land Securities is a FTSE 100 company and the largest real estate investment trust in the United Kingdom with a commercial property portfolio worth just under US\$16.4 billion. The company recently obtained voluntary agreement on a “Sustainable Leasing Memorandum of Understanding” from tenants in one of its office buildings and is in the process of adding other buildings as well. Future plans include rolling this approach out across the company’s entire managed London office portfolio of 40 locations. A similar approach is being taken in retail.

As an incentive for tenants to participate, Land Securities is offering free energy audits, training, awareness materials, and other services through its in-house environmental team. The key elements of the MOU are as follows:

1. The Parties agree to work together collaboratively to improve the environmental performance of the Building and the Premises.
2. The Parties agree to share with each other all data and relevant information they have in relation to the Building and the Premises concerning electricity consumption, gas consumption, other fuel consumption, water consumption, waste generation, management and recycling, and maintenance of plant and equipment used in connection with these resources.
3. The Parties will set up a Building Management Committee which will meet regularly, comprised of representatives of the Landlord, the Tenant, any managing agents, and other persons involved from time to time in the operation or management of the Building and the Premises. The Committee will review the environmental performance of the Building, agree to an environmental management plan for the Building and annual targets for reduction of energy, water, carbon and waste increase use of renewables and recyclables, and produce an annual statement on progress toward targets.
4. The Tenant will share information with the Landlord on hours of occupancy and lighting, heating, and cooling needs. The Landlord will share information with the Tenant on the building environmental management system and minimize the unnecessary provision of lighting, heating, and cooling.
5. The Landlord will not require reinstatement of alterations made by the Tenant that improve environmental performance of the building.
6. The Parties will work together to implement other specifically listed measures pertaining to waste, water, energy, auditing, alterations, cleaning, transportation, and educational programs.
7. The Parties will have their managing agents implement this agreement.
8. The Parties will encourage new owners or sublet tenants to implement this agreement.

The charge from the CEO that drives this work is simple, “to be universally acknowledged as sector-leader in terms of sustainability.” So, quite simply, the firm is seeking to accomplish sustainability measures that are most important and/or cost-effective.

In one sense the MOU program has no cost, as it does not use consultants and the team to achieve it is already in place. However, Land Securities does not have internal processes for cross-charging the costs of the time of the environment team, or the energy team or the estates managers who liaise with tenants to get the MOUs signed and implemented.

The wider justification is that as landlords/property managers, Land Securities understands that it cannot make significant reductions in building energy consumption, or reduce waste or improve recycling, without a high level of cooperation from the tenants. Its own case studies show that on its own, Land Securities can reduce energy usage in a building by maybe up to 10% over three years through improved management. But with tenant buy-in, they can achieve 15%–20% reductions in one year.

Of course, in the U.K. owners and tenants face the Carbon Reduction Commitment (CRC) beginning in 2010 (mandatory emissions trading) and this will affect larger property companies like Land Securities. They need to be able to reduce energy /carbon in order to meet targets in the CRC and avoid large costs for the carbon allowances. This is further justification for the MOU work, which is expected to help with the CRC obligations.

So far the MOUs have been voluntary and focused on existing tenants. The question of whether new tenants will actually agree to similar clauses in new leases, making them legally binding on both parties, is so far unanswered.

GPT

Listed on the Australian Stock Exchange since 1971, the GPT Group is today one of Australia’s largest diversified listed property groups. It focuses on active ownership of high quality Australian real estate in the retail, office, and industrial/business park sectors.

GPT utilizes the following forms of engagement with its tenants:

- **Direct Engagement:** Two way face-to-face dialogue.
- **Surveys:** One way surveys where GPT seeks information/views from stakeholders.
- **Partnerships:** Formalized engagement agreements between GPT and external parties where two-way dialogue occurs.
- **Regular Communications:** Written communication, reporting to stakeholders, corporate responsibility website, and an annual general meeting.

- **Online Feedback:** GPT's open invitation to all stakeholders to submit views or concerns. GPT has a practice of responding within 10 days.

Tenants are engaged in sustainability across the office, retail, and industrial/business park portfolios. Engagement methods vary; however, the objectives remain the same, namely, to support tenants with similar corporate sustainability goals to achieve their objectives and to increase awareness of other tenants.

Since 2004, GPT has been investing in the development of property-specific "ecological footprint calculators" with the Environmental Protection Authority of Victoria and the Global Footprint Network (GFN). These calculators are given to tenants and have been a key component of the GPT engagement program. All new and renewing retail tenants are required to sign a green lease, requiring them to go through the footprint assessment and to meet certain minimum eco-efficiency measures. Since adopting this policy in 2007, a total of 625 such leases have been entered into, which represents 16% of all retail leases in GPT owned and managed retail assets. GPT has a target to see this increase to 27% by the end of 2010.

Use of the ecological footprint calculators has resulted in an average energy reduction of 29% for eco-certified tenancies, according to GPT. In requiring tenants to engage in calculating the ecological footprint of their stores and achieving a variety of minimum water and energy efficiency standards, GPT hopes it will support the transformation of the retail sector to a more sustainable level. GPT, in partnership with EPA Victoria and the Global Footprint Network, has committed to expanding footprint calculators to cover all assets classes and aspires to achieve the same level of engagement in the Office and Industrial portfolios by 2012.

GPT has seen its investment in the development of footprint calculators translated to economic outcomes and benefits for all stakeholders through reduced tenant occupancy costs. To date, national retail chains, including Woolworths (supermarkets), Westpac Bank Corporation, and Telstra Corporation have used this approach to adopt new "national fitout" standards informed by the eco-efficiency design reviews sponsored by the GPT group.

Hermes Real Estate

Hermes Real Estate offers property investment through segregated and pooled vehicles. It is one of the largest real estate managers in the U.K. As a first step toward greater cooperation, Hermes has amended its standard form lease, adding green clauses that reflect obligations on both parties to cooperate and ensure the property is managed in the most efficient and sustainable manner possible. The green lease clauses are intended to encourage closer engagement between owner and occupier rather than being overly prescriptive or target based. The new standard form green lease came into effect in April 2008. To date more than 50 tenants have agreed to the new clauses, many embracing the initiative very positively. There has been significant resistance from some tenants, however, resulting in extensive dialogue and negotiation to find an acceptable, positive way forward.

In order to fully understand its tenants' needs and ambitions, Hermes commissioned a comprehensive occupier survey. The survey covered a sample of offices, business parks, industrial assets, and shopping centers. The results are being used to review and set clear objectives to govern their Occupier Engagement Program. Office tenants requested prioritization of recycling, promotion of green fuels and energy efficiency, and more communication on sustainability issues. Industrial tenants were particularly concerned with rising energy costs and want more owner engagement to prioritize recycling. Over 70% of shopping center interviewees said that sustainability is either "important" or "very important" to their organization and 50% were "very interested" in talking to Hermes about energy saving and carbon reduction initiatives.

Through its active participation in initiatives such as the London Better Buildings Partnership and Green500, Hermes is engaging with key tenants, both at the board level and at individual properties, which it believes will ensure a consistent approach to sustainable building performance. These partnerships provide a forum to meet with like-minded tenants and discuss opportunities that will be of mutual benefit.

Hermes has a significant amount of environmental and community data and information relating to its portfolio, some of which relates directly to occupied space. It offers to share this information with its tenants, which could help them address their corporate sustainability objectives. In return, Hermes is looking to its tenants to share data and information they may have relating to its assets, so it can accurately measure and monitor the environmental impact of its buildings. With new government regulation, such as the U.K. Carbon Reduction Commitment (CRC), it will be necessary for tenants to have far more detailed knowledge relating to their occupied space. As an example, those tenants who qualify for inclusion in the CRC will need to declare their energy consumption on an annual basis. Hermes currently holds this information for many of its tenants and is working to comprehensively record all metering and billing arrangements across its portfolio, so that when its tenants request this information, Hermes will be able to provide them with the necessary data.

Many of Hermes' tenants want to reduce the environmental impact of their operations. The challenge is how to do it. Across its London office portfolio, with the support of their property manager, Jones Lang LaSalle, Hermes is working to develop joint carbon programs with a number of tenants. These programs establish joint action plans to deliver respective sustainability targets and objectives. One example of this is the program adopted for Prospect House, a London office property. Working in partnership with tenant NBC Universal, in 2008 Hermes reduced carbon emissions by almost 15%, water use by 18%, and ensured that nothing is sent directly to a landfill. This has saved over US\$80,000 in energy costs and over US\$3,000 in direct landfill tax costs. Another case involved the Freeport Braintree Outlet Shopping Village, an 80-store shopping center in Braintree, Essex. In this case, the introduction by manager REALM of a tenants' energy league table, showing the performance of each shop against the center's energy targets, helped deliver a yearly decrease in landlord energy usage of 13%.

British Columbia Investment Management Corporation

British Columbia Investment Management Corporation (bcIMC) provides funds management services for Canadian public bodies and publicly administered trust funds. bcIMC's real estate investment program has incorporated corporate responsibility guidelines within its real estate investment policies, including, for example, policies on accessible real estate and consideration of community interests.

In 2005, bcIMC formalized the underlying philosophy, which helped to integrate responsibility into its operational framework. This included expanding into sustainable building design and retrofitting projects. bcIMC assesses sustainability concerns prior to the purchase or development of new properties. Once within the portfolio, bcIMC ensures that individual property business plans consider corporate responsibility initiatives for implementation. In addition, analysis is conducted on the sustainability aspects of all major capital budgets.

One development project bcIMC has been strategically working on is Westmount Corporate Campus, located in Calgary, Alberta. Together with bcIMC's external manager, Great West Life Realty Advisors (GWLRA), a sustainable business park development strategy was designed and implemented. In 2007, bcIMC and GWLRA entered into discussions with Carma Developers, a potential tenant, about the idea of developing a new head office in Calgary, Alberta. It was seeking a new office location and was interested in the Westmount Corporate Campus setting. In conjunction with Carma, bcIMC focused on incorporating several environmentally sustainable elements into the building during its design and development process. The result of Carma and bcIMC joining together was an unusual partnership between landlord and tenant, where each contributed equally to an extra menu of sustainable building elements. Examples of the elements include:

- **Waste Management Plan:** The project will divert materials from the landfill and recycle as much construction material as possible. To date, approximately one-third of the materials that would usually be sent to the landfill have been diverted and recycled.
- **Alternative Transportation:** In an effort to promote alternative modes of transportation, additional bicycle racks and storage facilities were incorporated into the building design.
- **Efficient Lighting:** More efficient outdoor lighting fixtures were installed to contain the spread of light rays. These more efficient lights also help to reduce the amount of heat generated from lighting and as such, lessen the 'heat island effect.'
- **Water Reduction:** All toilets within the building are either low flow or dual flush, which reduces the amount of waste water consumed. In addition, all urinals are waterless, which completely eliminates water consumption.

- **Recycling Facilities:** A conveniently located recycling facility encourages employees to divert waste from the landfill and increase recycling efforts.
- **Indoor Air Quality:** Better quality indoor air can create a healthier work environment and improve employee productivity and performance. To that end, monitoring devices have been installed to accurately assess indoor air quality performance and provide accurate baseline level data, which will be continuously assessed.

In addition to Carma being engaged throughout the development period, all other providers to the project were integrated into the design process. For example, Carma's design firm worked closely with both the landlord and tenant to ensure the most sustainable features and initiatives were incorporated into the project. This integrated design concept also flowed down to the individual employees at Carma. Most recently, Carma's corporate head office at Westmount Corporate Campus was selected as one of *Avenue Magazine's* 2009 Best Places to Work. In planning its new Calgary headquarters, employees were invited to contribute design ideas and were able to select from a list of design options and materials for their own workspaces.

Investa

Investa Property Group is a fully integrated real estate company and one of the largest, unlisted owners of commercial real estate in Australia. Investa has developed a number of innovative environmental initiatives to facilitate owner-tenant cooperation. For example, Investa's standard EcoSpace offering for newly refurbished office space includes a number of sustainability options, which aim to create a healthier workplace, smarter business, and a better environment. The EcoSpace offering is designed to help tenants:

- Reduce their energy bills. For example, improving a tenant's NABERS Energy rating (Australia's energy rating system) from 0 to 5 stars could reduce energy bills from over AU\$30/square meter (approx. US\$20.0/square meter) to around AU\$12/square meter (approx. US\$11.2/square meter) per annum.
- Improve employee health and well-being and therefore productivity.
- Enhance their brand and company reputation with staff and clients.

All Investa EcoSpace tenancies include energy-efficient lighting and controls, low emission paints, low emission carpet tiles, waterless urinals, and other environmental commitments agreed to in the leasing process.

Their *Green Lease Guide* accompanies the Investa precedent lease. It provides an opportunity to identify, discuss, and commit to objectives that will save tenants money over time, provide an excellent working environment for employees, and enhance tenant organizations' reputations. The *Guide* provides tenants with a useful framework to design an environmentally-friendly and energy-efficient tenancy.

Investa also recognizes that many of its existing office tenants want to minimize their greenhouse emissions through better energy management. The Investa Greenhouse Guarantee helps make the transition to energy-efficient offices as painless, cost-effective, and risk-free for tenants as possible. By introducing the latest energy-saving technologies and challenging management practices, the Guarantee provides strong rates of return on investment, reduces energy costs, and helps demonstrate corporate social responsibility—all within a risk-free framework. Tenants can enter into the Guarantee at any point during their tenancy. For new tenants, the Guarantee is introduced as an integral part of design and fitout.

To implement this program, Investa has teamed up with Energy Conservation Systems (ECS), one of Australia's energy solutions companies and a specialist in office lighting systems, to provide tenants access to products and expertise at competitive rates. After conducting a review of an interested tenancy (either at design, or in operation), ECS provides a firm quote with a guaranteed cap on office energy bills and greenhouse gas emissions. Once the upgrade work is done, if energy consumption exceeds the guaranteed cap, the cost of any excess energy consumed is refunded and green power credits are purchased from a green power provider to deliver the reduction in greenhouse emissions. If a tenancy performs better than the Guarantee, the tenant keeps the savings. The energy-saving technologies delivered as part of the Guarantee can be financed in a number of ways. For example, in Melbourne tenants can access funding from the City of Melbourne's Sustainable Melbourne Fund and use savings to progressively acquire the equipment, and in NSW the state government has made a grant available to subsidize projects delivered under the Guarantee. In many instances tenants elect to self-fund due to the appealing returns on investment.

Tenants representing more than 50,000 square meters of office space have taken up the Guarantee service since it was launched in late 2004. One of them was Investa's new 2,880 square meter head office at Deutsche Bank Place in Sydney. The new office incorporates highly efficient light fittings and the latest lighting control technology, which all together cost an additional AU\$60,000 (approx. US\$56,000) up-front but was guaranteed to deliver a AU\$24,000 (approx. US\$22,500) per annum saving in energy bills compared to the initial design. After two years of operation, the tenancy is performing more efficiently than projected and is saving in excess of AU\$30,000 (approx. US\$28,000) per annum. According to the New South Wales Department of Environment and Climate Change, in 2007/08 it was the most efficient NABERS Energy rated tenancy in NSW.

Any existing or prospective tenant in an Investa building that accepts the Investa Greenhouse Guarantee can expect to receive:

- A NABERS Energy Commitment Rating certificate.
- A guaranteed cap on energy bills.
- A guaranteed cap on greenhouse emissions.
- Guaranteed NABERS Energy Performance Ratings.
- The highest quality energy-saving systems and equipment.

- Regular performance reports to assist in marketing to staff, clients and other key stakeholders.
- Lower operating costs post guarantee.

Every lease entered into by Investa could be described as a green lease because they all include a schedule of environmental objectives and clauses that require collaboration. One recent advance is the inclusion of clauses that overcome the split incentives problem in net leases by allowing the landlord to recoup capital investment in buildings from tenants where the tenant is the financial beneficiary, so long as the cost does not exceed the benefit. Investa does not require tenants to adopt green measures and does not discriminate between tenants on the basis of their sustainability commitment, or line of business. Rather their focus is on education. They rely on enlightened self-interest to motivate their staff and tenants.

Tenant request data analyzed recently through the Investa Sustainability Institute supports this proposition. It appears that in some buildings the root cause of almost 50% of complaints recorded via Investa's independently operated tenant "helpdesk" can be traced to factors outside the landlord's (i.e., Investa's) direct control, in particular, tenant fitout, tenant supplementary air-conditioning, and tenant equipment.

Investa meets with every tenant in every building every month. During these meetings Investa representatives discuss the performance of the building (and provide statistics), inform the tenants about new initiatives, and get their feedback. There is also an Investa-employed property supervisor on site at all of its buildings full-time. Investa does not think the value of having a direct relationship with tenants at multiple levels can be overstated.

PRUPIM

PRUPIM is a top 20 global real estate investment manager. It forms part of the M&G Group of Companies, which is the asset management arm of Prudential plc in the U.K. and Europe. Through its membership of the Better Building Partnership, PRUPIM worked with the Office of Government Commerce (OGC), a major occupier in the U.K., to agree on a standard memorandum of understanding useful for guiding owner/occupier relations in reducing carbon emissions through better management of resources. PRUPIM is now engaged in encouraging other tenants in the buildings occupied by OGC to sign up to the MoU, extending use of the MoU to other, major managed office buildings in PRUPIM's management, and investigating whether the MoU can be extended into a Green Lease.

According to PRUPIM the major benefits of collaboration include:

- Better owner and occupier relations.
- More efficient management of resources (e.g., energy, water, and recycling).

- Efficiencies that could potentially lead to lower service charges for tenants.
- Improved building ratings (e.g., energy ratings and environmental certification).
- Strengthening PRUPIM's credentials as "Landlord of Choice."
- Maintaining and improving investment returns.

The potential benefits of owner/tenant collaboration have been demonstrated in four specific buildings:

An Environmental Performance Review was conducted for an occupier of Minster Court, a London office property. A carbon footprint was identified from an analysis of building operations (including electricity, gas, and water consumption), waste disposal covering various waste streams (and identification of recycling percentages), business travel, use of couriers, and materials use (covering office consumables such as paper). Opportunities were identified for improvement to reduce environmental impacts in each of these areas. The analysis also enabled the occupier to establish a baseline of current performance and the capacity to measure improvements over time.

Work to raise tenant awareness and increase recycling rates across the PRUPIM portfolio has resulted in a notable success story at Atlantic Quay, a mixed-use complex offering over 28,000 square meters of high class office accommodation. The Facilities Management (FM) team, the cleaning contractors, and the tenants all agreed to adopt a single central recycling facility in favor of individual contracts previously held by tenants. The FM team coordinated the installation of facilities and maintained communication with tenants throughout the transition and beyond. The result of this collaborative approach saw recycling rates increase from an impressive 40% to an outstanding 70% in one year and reduced costs for all those involved.

Another project is the Ultra Challenge at Green Park, a major business park on the outskirts of Reading. The FM team requested tenants to switch off all non-essential equipment over the weekend, such as screens, printers, and photocopiers. Electricity consumption was measured over a "control" weekend and the initiative weekend. In the initiative weekend, one-third of tenants inspected switched-off all equipment, one-third switched off the majority of their equipment, and one-third did nothing. Using meter readings, the initiative successfully reduced electricity of 39% compared to the control weekend.

Finally, with three lease renewals approaching at Hollywood House, Woking, PRUPIM took a different approach to the usual financial incentives to induce the tenants to renew. In this instance they agreed with two of the tenants to replace the obsolete building air conditioning system with a modern, more efficient alternative. This would potentially cut the tenant's energy costs by a quarter. On the basis that longer income streams were thus secured, the landlord saw a yield improvement by 0.5% (after costs deducted).

CB Richard Ellis

CB Richard Ellis (CBRE) is the world's largest commercial real estate services firm (in terms of 2008 revenue). In 2007, it announced a commitment to achieve carbon neutrality by 2010 in its own business activities. Perhaps the most significant aspect of their commitment is in helping their clients achieve a greater degree of environmental sustainability. Given their size, their ability to introduce, implement, and promote building management practices that have lasting environmental benefits is quite substantial. Perhaps even more far reaching could be their ability to affect occupant behavior beyond the work environment. Based on the idea that people who behave differently in one place will carry that behavior into other areas of their lives, CBRE has realized it has an opportunity to influence the broader communities that their tenants inhabit. From this idea, Planet Building—a concept that demonstrates the interconnectedness of home and work environments—was born.

Planet Building provides the vision and framework that guides CBRE in implementing greener building management practices and policies. Concepts were first introduced through *101 Tips Toward a Greener Tomorrow*, a comprehensive guide designed to assist managers and engineers in establishing sustainable practices and policies in their office buildings. Subsequently, *101 Tips for the Office*, an occupant version directed at their tenant population, was created and made available to every tenant in each building they manage. They then developed the next in the series, *101 Tips for the Home*, as part of their participation in the World Wildlife Fund's (WWF) Earth Hour campaign in March of 2009. *101 Tips for the Home* was made available on both CBRE's and WWF's websites for public download. The popularity of these guides prompted the latest version, *101 Tips for Travel*, which was distributed during the summer of 2009.

CBRE also believes that specific campaigns are also critical to engaging the building population because they allow managers to keep the conversation fresh and relevant while reinforcing desired outcomes. Both Earth Day and the U.S. Environmental Protection Agency's "Change the World, Start with ENERGY STAR" program provide these kinds of opportunities. The Change the World Campaign offered the opportunity for occupants to measure their impact. Through the generosity of CBRE clients, each occupant was given one compact fluorescent light (CFL) to replace at home. Over the past 18 months, CBRE has distributed nearly 30,000 CFLs to tenants and has garnered over 200,000 pledges to replace additional bulbs.

Effective communications are crucial in establishing and maintaining occupant engagement. CBRE has pursued various communication channels and approaches, including monthly building newsletters detailing the progress of sustainability programs and providing carbon reductions, kWh or water savings, and recycling statistics. Presenting the outcomes in a fashion that allows occupants to see and understand their personal contributions helps encourage continued participation. Targeted communication programs are also launched for each initiative of the building management team, ranging from reducing weekend building hours to

daylight janitorial to recycling or water conservation. All communications programs are thematic, unified, and aimed at familiarizing occupants with the program, helping them understand the concept and promoting individual participation. Every program, whether it appeals to the masses or takes a more sophisticated business approach, delivers the message in a manner aligned with intended outcomes.

CBRE is searching for new and innovative ways to take Planet Building outside the confines of the building structure. For the second year in a row, they partnered with a national landscaping company in 10 U.S. cities for Park(ing) Day, a global event that brings green spaces into the urban environment by transforming sections of street parking into public parks for the day. Originally initiated in San Francisco by REBAR, Park(ing) Day promotes the need for more parks and open spaces. They have also taken their messaging into a local school district in the form of sustainability “superhero” characters developed as part of their communications program. Working with at-risk middle school children, they created a contest to help them “Design the Next Superhero.”

Kennedy Associates

Kennedy Associates Real Estate Counsel LP (Kennedy) is an investment advisor for public, corporate, and Taft-Hartley (labor union) retirement systems. Across the Kennedy portfolio, Kennedy’s asset managers and third-party property management and leasing teams promote tenant engagement through continuous and active dialogue, ongoing lease negotiations, and communications for property operations, as well as through specific programs and initiatives aimed at increasing the sustainability of the Kennedy portfolio on behalf of its clients.

One successful example of active tenant outreach is the ongoing waste management program at Pacific Place in Seattle, Washington. Pacific Place is a five-story, 300,000 square meter upscale shopping center in Seattle’s central business district. The “Erasing Waste at Pacific Place” project has three components: shopper awareness, tenant employee training, and the installation of recycling containers. To make recycling easier for shoppers and tenants, recyclable material is collected in public areas and stores, and organic material is collected at restaurants and coffee service areas. The program has consistently diverted significant amounts of solid and food waste (almost 1,400 tons in 2008), while reducing the Pacific Place carbon footprint by an estimated 2,300 tons.

Since the start of 2009, Kennedy has been using a “green lease,” which promotes sustainable property operations, by providing specific landlord and tenant recommendations and requirements for Class A office space. The lease, used as the starting point for all office lease negotiations, incorporates guidelines intended to promote energy and water efficiency, environmental reporting and disclosure, sound indoor environmental quality, and waste management and recycling, while protecting the asset’s environmental rating if applicable. Kennedy has also created specific lease language for its industrial portfolio to assist with its energy

management activities and the acquisition of utility information from tenants with triple-net leases.

In concert with the use of its green lease, Kennedy has partnered with Better Bricks, the commercial initiative of the Northwest Energy Efficiency Alliance, to create a Sustainable Tenant Improvement Guide for Class A office space. The guide provides various audiences (including tenants) with the technical framework needed to build-out sustainable space in areas such as energy and water, while also creating an environment that meets current tenant demands related to air quality through the use of recycled and low-emitting materials, day-lighting, and occupant temperature controls among others. The Guide will assist the growing number of tenants interested in pursuing LEED Commercial Interior certification, and ensure the tenant's occupancy supports the asset's ongoing sustainable property operations.

In March 31 2009, Kennedy Associates was named ENERGY STAR Partner of the Year for its exemplary energy performance, monthly benchmarking, and portfolio-wide reductions in greenhouse gas emissions. One very important component of the Partner of the Year Award was the external promotion of ENERGY STAR energy management best practices and programs, such as the "Change a Light Campaign" to tenants, clients, and the general marketplace. Every year, Kennedy's property teams use various outreach strategies, such as education materials, sustainable tenant events, and monthly outreach emails and newsletters to improve tenant energy conservation awareness. A concrete by-product of this outreach has been multiple landlord-tenant lighting retrofit projects resulting in substantial reductions in energy use and corresponding operating expenses.

As the first institutional investment advisor in the U.S. to achieve LEED Existing Building Operations & Maintenance (EB O&M) program volume pre-certification, Kennedy is utilizing its LEED EB O&M program to strengthen tenant engagement, which will assist them in achieving building certification for over 5.5 million square meters of office space. Through its LEED EB O&M program, Kennedy has standardized sustainable practices and implemented corresponding training and education that aid in tenant engagement, while reducing operating expenses and promoting a healthy indoor environment for building occupants.

Finally, Kennedy employs the ongoing use of a proprietary tenant survey to assess tenants' satisfaction related to its RPI efforts and sustainable property operations. From the survey results, Kennedy is able to discern what areas tenants are most concerned about. Selected RPI highlights from the most recent tenant survey include:

- 54% of multi-family tenants indicated their community's "green" features were important factors influencing their housing selection.
- 87% of office tenants and 75% of industrial tenants indicated that implementing an indoor air quality program at their building was important to them.
- 85% of office tenants and 67% of industrial tenants stated that implementing a recycling program at their property was important.

- 84% of office tenants and 79% of industrial tenants responded it was important for their building to utilize energy efficiency practices.

Summary and Conclusion

This paper has highlighted eight examples of owner-tenant collaboration by some of the world's leading property investors. All these firms are finding special ways to work with tenants to improve the sustainability of existing (and new) building stocks, as follows:

- Land Securities uses a Sustainable Leasing MoU with existing tenants. They offer free energy audits and other services to tenants willing to join the agreement, which provides for collaborative efforts to improve the environmental performance of the building and premises.
- GPT uses a variety of techniques to engage with its tenants. Most notably, it requires retail tenants to sign a “green lease” and use an “ecological footprint calculator,” which help them move toward reducing their environmental impacts.
- Hermes has also added green lease clauses to its standard lease, stating the obligations of both parties toward sustainability. It has conducted a comprehensive occupier survey, offered to share energy consumption and other data with tenants, and is working with several tenants on “joint carbon programs” to deliver carbon reduction targets.
- bcIMC worked directly with a tenant planning to occupy a new office project on ways to incorporate better environmental features into the building. The effort produced an agreement to contribute equally to a menu of sustainable building elements.
- Investa offers a number of innovative initiatives to promote owner-tenant cooperation including EcoSpace, a greener offering for newly refurbished office space, a Green Lease Guide that helps new tenants select green options for their tenancy, and the Greenhouse Guarantee that gives tenants a risk-free and cost-effective way to lower their energy consumption.
- PRUPIM also uses a MoU between itself and major tenants to guide carbon reduction efforts.
- CB Richard Ellis, through their Planet Building program, offers tips on sustainability practices that can be implemented by their tenants, free light bulbs, and special communications devices targeted to property occupants.
- Kennedy Real Estate Council reaches out to its shopping center tenants to promote recycling, uses green leases in its office and industrial portfolios, offers a sustainable tenant improvement guide, promotes energy conservation through outreach activities, involves tenants in achieving LEED certification for existing building operations and maintenance, and uses ongoing surveys to assess tenant satisfaction with its RPI programs and activities.

All of these examples demonstrate how real estate firms can work with both new and existing tenants to move toward greater cooperation in responsible property investing. Clearly, these efforts take considerable commitment and effort on both sides, but just as clearly, they can produce significant business and sustainability benefits, which make them worth pursuing. More fundamental, however, is that it seems impossible for a fully successful program of sustainable and responsible property investing to succeed without initiatives like these in owner-tenant cooperation.

It would appear from these cases that the “green lease” is becoming a key vehicle for facilitating the owner-tenant relationships around sustainability. Today green lease toolkits and model green leases are increasingly available. However, the MOU’s, service contracts, and educational programs reported here are also worthwhile devices that should not be overlooked and could be at least as effective. The time has come for researchers to begin quantifying and comparing the cost-effectiveness of these different approaches.

One green leasing provision that seems particularly promising was reported in the Investa case, where the landlord is allowed to recoup capital investment in buildings from tenants where the tenant is the financial beneficiary, so long as the cost does not exceed the benefit. This could go a long way toward overcoming the split incentive problem and it deserves further attention.

What all these programs often have in common, however, is their piecemeal nature. They are implemented one tenant at a time. While this is attractive for some reasons, it is also worth recognizing the potential for corporate-to-corporate cooperation at a higher level. Property companies that own many shopping centers, for example, could enter into strategic alliances with retail firms with many tenancies to promote fitout and operational programs that promote corporate social responsibility and sustainability. Such alliances could help both organizations achieve their social and environmental goals. They could also increase the attention paid to corporate real estate in corporate social responsibility and sustainability reporting, which unfortunately is often underplayed. The GPT case, where national retail chains have adopted “national fitout” standards informed by eco-efficiency design reviews sponsored by GPT, is suggestive of this approach. Indeed, without strategic direction from corporate leaders, it may be difficult for property-level managers to gain full cooperation from store managers. Thus, a programmatic green-leasing program agreed to between corporate owners and tenants for all of their common concerns may be an effective strategy for greatly increasing the level of owner-tenant cooperation in the future.

As Simon Guy has suggested, transformation toward sustainable real estate will be embedded in a “sociotechnical” process in which technical choices are shaped by social institutions and behaviors (Guy, 2006). Thus, to a considerable degree, progress on sustainability in real estate will depend upon transforming both our physical and our social capital stocks. The physical stocks must be redesigned and refurbished to improve their eco-efficiency, but that will require new social capacity to facilitate better cooperation between owners and their tenants. Fortunately, the cases presented here suggest that both capabilities are emerging.

Endnotes

- 1 The publications are available at <http://www.unepfi.org/publications/property/index.html>.
- 2 See *Building Responsible Property Portfolios*, available at <http://www.unepfi.org/publications/property/index.html>.
- 3 See *Responsible Property Investment—similar aims, different manifestations*. Available at http://www.unepfi.org/fileadmin/documents/article_resp_property_investment.pdf.
- 4 For an excellent review of green leasing, see Sayce, Smith, Sundberg and Cowling (2009).
- 5 More information about the group can be found at www.unepfi.org.

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This paper was adapted from a recent report compiled by the author from contributions made by the companies and published by the UN Environment Programme Finance Initiative under the auspices of its Property Working Group. It contains both material written by the author and edited by him from documents submitted by the firms represented in the cases. The report, entitled Owner-Tenant Engagement in Responsible Property Investing is available at www.unepfi.org. The author is grateful to the companies for their contributions and to the leaders in the firms who have created and reported on these programs. As always, however, any failures in this paper remain solely his responsibility.

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