

## SUSTAINABILITY TO BE A KEY ISSUE FOR INVESTMENT FIRMS IN 2015

American Realty Advisors believes more investment firms will take on the “doing well by doing good” approach in 2015 that prioritizes sustainability in commercial properties.

By Stanley Iezman



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**C**ommercial real estate can have a profound effect on the environment. Commercial buildings account for 39 percent of total energy use in the United States alone, according to the EPA. They also account for 12 percent of total water consumption and 38 percent of total greenhouse/carbon dioxide emissions.

Whether due to changes in the law, tenant demand or property valuation, energy conservation and sustainable practices will become increasingly important to property owners and investors in the years ahead.

One trend is increasingly clear: return-driven investors expect a practical and meaningful response to these challenges. Sustainable building practices benefit the environment and community at large, but they can also result in tangible benefits for clients. Sustainability is not only the right thing to do, it's also the smart thing to do – giving portfolios a clear competitive advantage and, as a result, clients who are “doing well by doing good.”

High-performance/efficient buildings reduce costs, mitigate environmental concerns and enhance a property's marketability. These are all significant factors for investors and the investment firms that help them manage and increase the profitability of their assets.

As investment firms approach sustainability in 2015, many will realize that the long-term benefits heavily outweigh the initial capital required to implement sustainable features.

Firms that can successfully reduce a property's energy usage by 30 percent may realize increases of up to 5 percent in both net operating income and asset value.

Through implementing green best practices and utilizing the latest in energy-efficient design, investment managers can increase the desirability of properties and deliver real benefits to their clients.

American Realty Advisors has established sustainability practices as part of its overall green initiatives portfolio-wide. The firm seeks to deliver sustainable assets through these practices that benefit not only the environment but also client portfolios.

### The Approach

American focuses on three key objectives:

- 1) Increasing net operating income
- 2) Adding value to our investors' properties
- 3) Reducing any negative impacts these buildings have on the environment

Each asset undergoes thorough and rigorous evaluation to determine where sustainability can be optimized. This allows the firm to better identify operational inefficiencies and develop successful and impactful sustainability strategies that will eventually reduce costs.

These include:

- Identifying financially attractive green retrofit opportunities using energy and environmental audits
- Employing best practices in building operations by tracking energy and environmental metrics of office assets, along with the asset's financial performance to ultimately increase asset valuation
- Sharing information with the firm's business partners to further increase the awareness and the benefits of going green
- Establishing partnerships with tenants and communities to implement infrastructure projects that increase efficiency, tenant well-being and reduce operational costs
- Reviewing policies regarding energy usage and environmental impact periodically for all properties under management.

Sustainability can be created through the implementation of energy-efficiency protocols like lighting retrofit programs, energy management systems, new chiller systems, co-generation facilities, solar photovoltaic systems, reduction in water consumption and reduction in greenhouse/carbon dioxide emissions.

## Implementing the Strategy

American recently evaluated an office complex it acquired at 18201 Von Karman in Irvine, Calif. The complex demonstrated operational inefficiencies based on a lack of environmentally conscious initiatives from the previous ownership. The property lacked proper lighting systems, the cooling systems were outdated and there was no waste management protocol in place. The asset experienced higher costs and could not retain long-term quality tenants.

Additionally, the underperforming asset could not deliver a comfortable temperature to tenants during the hot summer months because of its outdated and inefficient cooling systems. The property's ability to attract new tenants was severely hindered.

Upon acquisition, American immediately executed an intensive sustainability program. It added upgraded HVAC systems and implemented an energy-efficiency platform throughout the complex. As a result, the property was better positioned to attract high-quality, long-term tenants, increase tenant retention and add value.

## Increasing Demand

Environmental awareness, operational efficiency and social responsibility are all concepts that resonate well with tenants and buyers. Demand for properties with sustainable features



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and energy-efficient amenities is on the rise.

Tenants want to live in, work in and rent sustainable buildings – and investors want to buy them. As 2015 progresses, investment firms will seek new opportunities to add green features to the assets they manage, ultimately ensuring a deep competitive edge.

## An Ongoing Commitment

American has been an Energy Star partner since 2007, aligning its policies with the Energy Star Guidelines for Energy Management. We manage more than 6.8 million square feet in properties that have received the 2013/2014 Energy Star designation – many with scores of 90 or higher.

We believe a strong commitment to environmental stewardship through monitoring and improving client assets can provide real, positive and measurable impacts on the overall

portfolio performance. Managers must monitor the rapidly evolving sustainability requirements to identify changing trends and best practices, however. This is vital to promoting and implementing programs and processes designed to reduce operating expenses, increase resiliency and enhance investor value.

## The Bottom Line

Sustainability strategies may give portfolios a competitive advantage. These strategies can lead to reduced costs, as well as increased efficiency and desirability of buildings, and added value overall.

As we move forward into 2015, energy efficiency and sustainability will continue to grow in focus, not only because it's the right thing to do, but because it's the smart thing to do.

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