

# ARA BUILDING VALUE

## Water Wise: Water Conservation Measures Good for the Environment and Investment Resiliency



Welcome to Building Value, a new series from American Realty Advisors that will explore investment strategies, building improvements, and management initiatives designed to promote our environmental, social, governance, and resiliency goals.

# THE STRATEGY: WATER CONSERVATION

## WHY CONSERVE WATER?

There is no new water. All the water on planet Earth has existed since its beginning.

Water is continuously moving and changing forms through its natural cycle on, above, and below the surface of the land. We experience it as rain, ice, and vapor, and with increased frequency we either have too much of it (in the East) or too little of it (in the West).

Despite the finite nature of this vital commodity, consumer pricing signals the opposite of the true value of our potable water supply:



There are alternatives to gasoline in abundance today, many of which cost less. The state of California often produces more solar energy than consumers use during the day<sup>1</sup>. There are alternatives to milk, made from nuts and other organic matter. Non-dairy milk can cost twice as much, but it is available. When it comes to water, there is none to spare, and there is no alternative.

## WHAT IS THE ROLE OF COMMERCIAL REAL ESTATE IN WATER USAGE?

Let's take a look at how buildings in the U.S. are using water on an annual basis. Fifty-seven percent of water use in the U.S. occurs in the residential sector<sup>2</sup>, and the average American family uses more than 300 gallons of water per day, 30% of which is for outdoor watering<sup>3</sup>.

Twenty-nine percent of water is used in commercial, industrial, and institutional buildings. In office buildings, the three largest uses of water include restrooms, heating and cooling, and landscape watering<sup>3</sup>.

## HOW CAN WATER CONSERVATION BUILD VALUE FOR INVESTORS?

As citizens, we have a responsibility to preserve our most precious natural resource. As investment managers, we have a responsibility to make operational decisions that provide strong returns for our clients and protect our investments from future disruption.

<sup>1</sup> Institute of Energy Research, 2021

<sup>2</sup> U.S. Geological Survey data as of 2015.

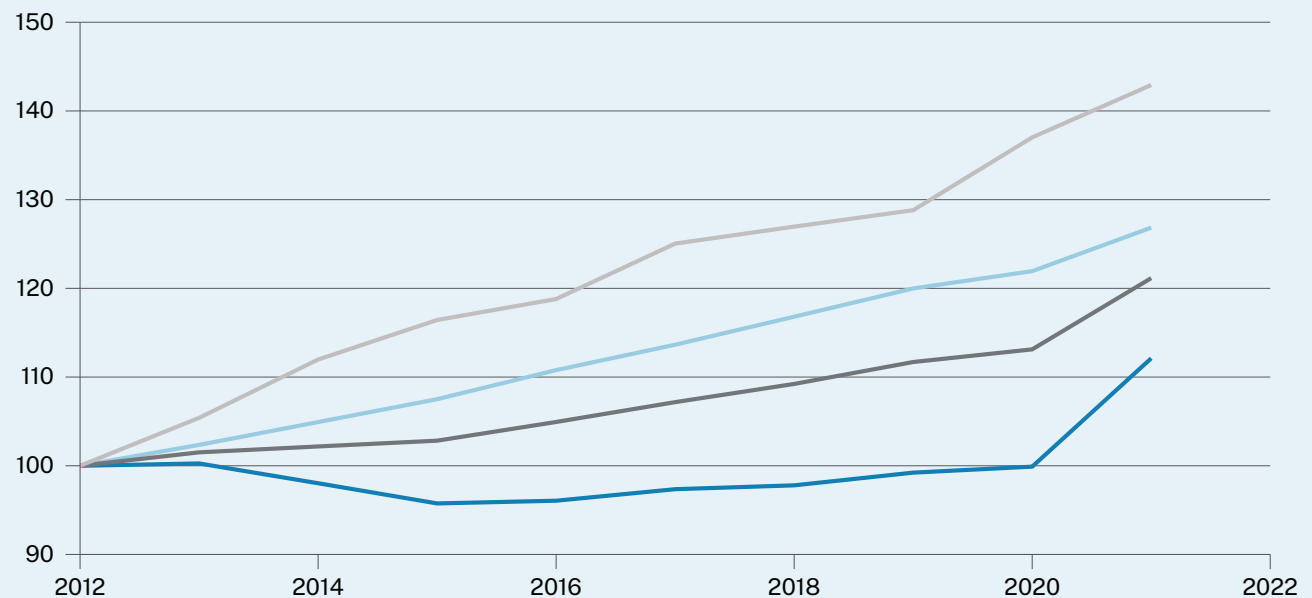
<sup>3</sup> U.S. Environmental Protection Agency

We see water conservation measures as part of our responsibility as both corporate citizens and as responsible investors. When you compare increases in household water bills in the U.S. to other measures of price increases, the value of reducing water usage can be seen as an active strategy to hedge against inflation (Figure 1). Since 2012, the rate of increase in household water bills across the country has well outpaced inflation, making saving water not just good for the planet, but also good for operating costs.

As this trajectory continues, potentially compounded by increasing water scarcity and continued drought conditions on the West Coast, implementing water savings initiatives today is protection against increased operating costs for building operators and tenants in the future.

**FIGURE 2**  
Price Trajectories, Select CPI Components, Overall Inflation and Household Water Bills, 2012 – 2022 (2012 = 100)

Commodities Services CPI-U, All Items Household Water Bills (50 U.S. Cities)



Source: American Realty Advisors based on data from Bluefield Research and Macrobond as of June 2022.

## WATER SAVING INITIATIVES:

In order to save money at the property level, ARA has developed an approach to optimization, deploying water conservation measures and promoting water reuse/recycling systems across our portfolio assets and within our own corporate offices. Highlights of our programmatic approach include:

- **A 23% reduction in annual water use in one of the firm's portfolios** in 2021, compared to its 2017 baseline, exceeding its original target. This was achieved through a multipronged approach of operating efficient properties, pursuing water conservation projects, and engaging our stakeholders among other things.

- **The elimination of potable water use for turf irrigation** in ARA's California office and industrial properties in June 2022. ARA properties in Texas, Colorado, and Florida are also limiting watering to one-to-two times per week until further notice. Altogether, 41 properties are on reduced or no watering of turf.
- **The launch of a strategic partnership with a leak detection firm** to deploy this technology in multiple buildings in our portfolios.

Here is a sampling of effective water reduction projects from the last two years.



ALARA UPTOWN

### LOW-FLOW

Alara Uptown, a 294-unit property in Dallas, Texas, decreased unit sink water flow to 0.5 gpm through the replacement of aerators in units in 2021. They achieved an annual savings of 317,000 gallons of water, which equates to \$3,500 in reduced annual utility costs. They also added a Weathermatic control and meter to the irrigation system.



BALLSTON GATEWAY

### LANDSCAPING

- Ballston Gateway installed a Lakos Side Stream filtration system as well as new fill media on their cooling tower.
- Pasadena Plaza completed an extensive native landscaping and drip irrigation project.
- Admiral Junction completed renovations of the lower-level landscaping by adding drip irrigation.
- 6425 Katella has kicked off turf removal and installation of drought-tolerant landscaping.



FOUNDRY III

### LEAK-DETECTION

- Foundry III completed an under-floor leak detection system.
- 499 Park Avenue installed leak detection systems on multiple tenant floors.
- 1130 Connecticut installed FloodStop and Flood Master leak detection on tenant floors.
- 30 Montgomery installed GoVee leak detection in the equipment penthouse.

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