

Measuring performance

As the pressure ramps up to improve the environmental performance of existing buildings, owners need to keep up with the latest standards in order to maintain the value of their assets. **Michelle Romain** talks to **Mark Beattie** about how the pressure for change threatens to push many buildings into obsolescence.



From deep within tenant organisations, staff are becoming increasingly vocal about the spaces where they spend so much of their life. As generation Y increases its influence, this new appreciation of office quality and a healthy building environment will impact on existing buildings.

"Tenant expectations for a healthy and compliant building are emerging, along with the need for energy efficient, environmentally friendly spaces to lease," says Mark Beattie, managing director of Davis Langdon. "People will no longer put up with shabby air handling and ventilation when there are equally appealing lease options with energy saving controls available at around the same price."

The main areas where tenants are demanding improvements include:

- Efficiency and reductions in energy and water consumption
- The 'social equity' performance of buildings in regard to delivery of amenities, clean air, accommodation for disabilities and a safe environment
- Compliance with modern standards including regulations and performance standards, as well as general conditions across all components, particularly engineering services.

After measuring the performance of clients' property portfolios for the past five years, Beattie has found most properties do not satisfy the safety and building compliance standards under their occupancy permits. "Most do not measure their energy, water and greenhouse gas emissions and improvement strategies," he says.

"More importantly, we have found that in very few cases where property managers suddenly conduct a safety or environmental risk assessment, owners and tenants are potentially burdened with issues that can be prevented."

Mainstreaming demands

Beattie says there has been a noticeable shift in the scale of improvements to the performance of buildings. Where once it was deemed only economically viable for large tenants to demand improvements in the buildings they occupy, now smaller tenants are joining in.

"As the vast majority of buildings contain small to medium-size tenancies, the cost, until now, has been thought to be the only issue. Even these smaller to medium-size tenancies will have to face up to an increase in costs to achieve the higher standards," says Beattie. "Equally, building owners will

“ People will no longer put up with shabby air handling and ventilation when there are equally appealing lease options with energy saving controls available at around the same price. ”

MARK BEATTIE

need to contain rent increases to remain competitive.”

Beattie says it will soon be uneconomical for building owners not to comply with tenant expectations. “Those building owners who ignore these new requirements will see their building lose value and even become obsolete.”

Raising the bar

The latest crop of developments is setting new standards with significantly improved performances in energy, water and air quality, along with a range of areas such as health and safety, amenities and compliance to current standards.

“Owners of existing buildings need to be shown how well their property performs. Corporate governance by tenants is looking for evidence of energy, water and social responsibility measures, health and environmental management and the status of compliance and indoor air quality, to name a few. Rating tools are not, as yet, bringing these measures together,” he says.

This trend is not going unnoticed as owners are starting to pay attention and enquire about what it really means and where their building fails to deliver.

“What we are finding now is that discerning property owners are initiating these environmental, social and condition improvements in line with their own corporate risk management strategies,” says Beattie. “In one case, an insurance premium reduction was applicable for a large national property portfolio owner as a result of diligent assessments.”

So how can a building owner make a judgement on their existing building to the latest energy-efficient developments?

Beattie says the first step is to build a realistic assessment of property performance against contemporary standards. “If you measure across your

property portfolio and it relates to user expectations as well as a common set of scoring methodology that is comparative, you can compare the buildings and how they are being managed.”

Owners then need to know what has to be done to meet tenant expectations and how much it will cost. “Armed with knowledge, they can make informed business decisions to retain, enhance or divest their assets,” he says.

Beattie believes it is also important for tenants to be involved with improvements to learn how their operations can adapt to any changes.

“Before a lease commitment, an informed tenant, armed with the evidence of current compliance and property performance, can make educated judgements about the lease.

“There is no expectation that buildings will become ‘green’ overnight, but tenants working in conjunction with the property manager could use a performance assessment process to work towards a suitable and equitable lease outcome that benefits both parties,” he says.

Helpful tools

There are a variety of tools that can measure a building’s performance, but it can be difficult to understand how a building has failed to meet new standards.

“What is missing from the market is a measurement matrix; one that assesses and measures sustainability, social performance and the condition of the building. There are plenty of energy and water calculators but none are property specific and none apply local, regional and country parameters.”

Beattie says an assessment process is needed that provides a clear gap analysis that takes the owner towards a balanced improvement strategy.

However, tools are currently being developed that identify relative performance against international and industry standards.

“What we have done is provide the ‘missing link’ by offering a web-based tool that enables uniform, consistent and relevant measures across the property. Davis Langdon Property Performance Reporting, in conjunction with EC3 Earthcheck, covers sustainability, social and conditional issues and the items applicable against accepted benchmark criteria.

“The tool provides owners with on-line auditable and traceable advice on the status of the property performance and how their properties rate across their portfolio and similar properties.

“Most importantly, the tool will lead to a costed strategy of what can be done to bring the owner’s properties up to contemporary standards,” says Beattie.

The cost driver

Beattie says savings in consumption will also become an improvement driver as electricity is set to rise from around 10 percent of typical outgoings to more than 30 percent once the full impact of the proposed emerging Emissions Trading Scheme (ETS) takes effect.

Energy efficiency improvement projects will suddenly have an acceptable payback period, which tenants will demand owners to pursue. This will quickly be further enhanced if the Australian ETS involves abatement credits with a market value.

“By making appropriate performance assessments, owners will start to meet shareholder requirements of full disclosure, meet their business continuity requirements and demonstrate due diligence in asset value protection,” says Beattie. ☐