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Breaking the “Vicious Circle of Blame”

“Business as usual” is for some a game-changing, sustainable model for breaking real estate’s “vicious circle of blame”.

The vicious circle of blame

In the early 1990s, organisations globally sprouted up to codify sustainable real estate best practices. In the late 1990s, these governmental, non-profit and for-profit organizations signalled hope that sustainable real estate would soon be “business as usual” when they launched their respective green building rating systems, such as the UK’s BREEM (1993/1998), France’s H.Q.E. (1999), and North America’s LEED® (1998) and ENERGY STAR® (1999). Nonetheless, many real estate stakeholders were frustrated with slow progress and asked:

Who is to blame for why sustainability has not gone mainstream yet?

David Cadman introduced the concept of the “vicious circle of blame” in 2000. He suggested that investors, occupants, contractors and developers blame each other sequentially and in a loop for their own lack of commitment to adopt healthier and/or more resource-efficient real estate practices. In 2008, The Royal Institution of Chartered Surveyors echoed Cadman’s frustration and his hope for sustainable real estate to go mainstream, and carried on the conversation through a conference and well-developed articles, asking questions like:

How and when does an abundance of interest in sustainability and a strong will to go green translate into sufficient demand for a viable market?

The good news is that our industry responded with bold action to RICS’ assessment by overcoming obstacles, addressing unfulfilled key drivers, heeding messages and investing, as recommended, to yield superior results for all parties. And, as early as 2007, sustainable real estate in the United States burst the vicious circle of blame when green building entered a period of rapid and accelerating market adoption, exceeding 100 per cent year-on-year growth.

Mandatory and voluntary, green went mainstream. Will sustainability endure?

Mainstream defined

Whether and when sustainable real estate went mainstream can be assessed by applying the familiar concepts of product and technology adoption lifecycles, researched and written about at length by authors such as Dr Everett Rogers in his book “Diffusions of Innovation” (1962) and Geoffrey A. Moore in his book “Crossing the Chasm” (1991). In summary, innovators (2.5 per cent of the market) and early adopters (13.5 per cent) comprise “early markets”. To escape “early markets” and enter “mainstream markets”, products and technologies must “cross the chasm” and reach a “tipping point”. This transition is signalled by the “tornado”, a period of rapid and accelerating adoption by early majority



(34 per cent) and late majority (34 per cent) users. Laggards (16 per cent) complete the bell-shaped curve adoption lifecycle.

In 2007, certain geographic regions and certain property types seeking various green building certifications entered the tornado. Today, it is clear that green building has crossed Moore’s chasm and is well on the way to “mainstream” adoption. What is not as clear is how we should define sustainable real estate. Although the duration of these lifecycles varies widely and is generally getting shorter, the green building lifecycle seems to be 20 to 30 years. That is, the “early market” took roughly 15 to 20 years, and the “mainstream market” may last another decade or two until the next incremental or disruptive innovation. Companies that anticipated green trends and thrived in “early market” years are those with today’s lowest costs, most formidable competitive advantages and greatest resiliency to thrive in any economic climate.

Sustainability defined

With nearly the entire planet going green, definitions of sustainability differ widely, creating a green building continuum and shades of green. Simply put, three perspectives prevail. To some industry participants, green building means simply energy or resource efficiency or a checklist of technologies. To others, sustainable real estate encompasses integrated design and a lifecycle perspective. And, to others, sustainability extends beyond real estate to corporate strategy and operations. To a large degree, the current global economic crisis has temporarily distracted under-capitalised stakeholders from the latter two perspectives despite their superior offensive and defensive benefits in any business climate.

Green building rating systems: global comparison

Green building programmes differentiated their rating systems in four ways. First, they focused more on either resource efficiency or comprehensive integration. Second, they favoured either prescriptive, performance or intent-based criteria. Third, they started by targeting new buildings or existing buildings. And fourth, they certified buildings based on either self-affirmed or independent audits.

All programmes and rating systems have helped to articulate a common, globally understood and locally spoken language of sustainability. And each is uniquely crucial to ensuring sustainable real estate’s success and significance, as demonstrated by one of 2008’s most insightful research studies – New Buildings Institute’s “Energy Performance of LEED® for New Construction Buildings”. This study proved the need for linking design intent to operational performance. By comparing intended energy efficiency with actual energy performance of 121 of the 552 LEED-NC v2.0 certified projects pre-2006, the study revealed that the best LEED intentions yielded a wide range of results, from superior to inferior performance, 25 per cent above and below both the national average and design expectations.

The best rating systems function as much more than checklists, calling teams to higher levels of sustainability while recognising that one size may not fit all projects. Even so, a review of all green buildings’ strategies unveils a prescreened checklist, i.e. clusters of negative cost, no cost, low cost, average cost and high cost strategies, with some more regionally and project appropriate than others.

Early Market Leaders

Architects were green building’s earliest and strongest advocates. Investors, though, were also among sustainability’s innovators and early adopters. For instance, over 15 per cent of all mutual funds in the United States, or over two trillion dollars, were socially screened, as of 2008.

Europe was also clearly a “green” leader before the United States was. Sustainability was Europe’s logical, *voluntary* choice, made out of necessity due to natural resource constraints. Only lately has Europe *mandated* sustainability. For example, Energy Performance Certificates (EPCs; required for leasing or selling commercial real estate) and the European Union Emissions Trading Scheme (EUETS) have been important first steps in transforming markets, quantifying progress and motivating sceptics.

Conversely, many would assume that the other side of the Atlantic is significantly behind when it comes to sustainability. But green initiatives in North America may surprise you:

- Even though it borders the Pacific Ocean, California is where Europe’s proclivity for sustainability meets the rest of the United States. California is arguably the greenest of all fifty states, having maintained one of the lowest per capita energy consumption rates for decades despite its status as the most populous state and as an energy-intensive industrial leader. California is also home to more green buildings than any other state, with nearly 21 per cent of all ENERGY STAR labelled buildings and roughly 15 per cent of all LEED certified and LEED registered projects in the US
- Washington D.C. followed Europe’s lead by mandating energy efficiency disclosure similar to Europe’s Energy Performance Certificates.
- Not typically recognized as an environmental leader, Texas ranks second place among states and just after California with 14 per cent of all ENERGY STAR labelled buildings, eighth place with four per cent of LEED certified projects in the US, and fourth place with seven per cent of LEED registered projects in the US
- From 2003 to 2007, the number of US cities with green building programmes increased from 22 to 92, according to the American Institute of Architects’ report “Local Leaders in Sustainability”. And by early 2009, more than 900 mayors of US cities have become signatories of the US Climate Protection Agreement, similar to the Kyoto Protocol.

The Tipping Point and Beyond

In 2007, it became clear that some rating systems, particularly those started in the United States, such as ENERGY STAR and LEED, had surpassed their “tipping points”:

- Anecdotally, architects no longer had to promote sustainability to clients; instead, clients suddenly asked for green. So vendors started offering specialised services, including green building loans and insurance. By 2008, the vast majority of Requests for Proposal required ENERGY STAR and/or LEED.
- Statistically, demand for green buildings surged. ENERGY STAR labelled buildings surged 92 per cent to a cumulative 4,503 buildings, 834 million square feet (77.6 million square metres). And the pipeline of LEED projects skyrocketed more than 750 per cent to more than 17,000 projects, comprising more than 3.7 billion square feet (344 million square metres).

About the same time, organisations upgraded their green understanding, as evidenced by a surge in partners and members of niche groups, like ENERGY STAR and the USGBC. For some, the definition of “green building” was upgraded from energy efficiency to comprehensive “sustainable real estate”; others expanded their focus from “sustainable real estate” to include “corporate sustainability”.

Today, with widespread acceptance, green definitions are converging and every stakeholder is actively speaking sustainability. For example, the real estate and investment communities are incorporating not only ecological and social criteria but also economic performance in rating systems. Investors are shifting their focus from new construction to existing buildings (which account for 98–99 per cent of the annual commercial inventory), and implementing conservatively only negative, no and low cost strategies even though many advanced strategies are on sale at steep discounts.



Hines’ timeless, game-changing model

Like other early market leaders, Hines and its extended family of tenants, vendor partners and financial partners have thrived by having defined “business as usual” as “sustainability” before green was even a trend. Sustainable real estate always made good business sense.

Two characteristics have enabled Hines uniquely to break the “circle of blame”. First, Hines adheres to rational yet entrepreneurial, solid business principles throughout business cycles. Second, because Hines has been a tenant, property manager, developer and investor in 16 countries, Hines can empathise and communicate well with nearly every potential partner and client. Because Hines survived and thrived during previous economic downturns and today manages 29 funds, one REIT and more than \$26 billion of real estate assets, Hines’ most recently learned role as owner-investor may be its most sustainable role.

Global Commitment and Leadership

In Europe:

- Hines France has developed only projects eligible for certification under H.Q.E. since 2005.
- Hines UK has developed buildings certified under the BREEAM rating system.
- Hines Spain committed to designing all new projects for LEED certification and has earned multiple certifications and awards for its Diagonal Mar mixed-use project and many Tripark Business Sense office park developments.
- Hines Germany pursues LEED certification for all projects and partnered to establish the first sustainable real estate standard for Germany.
- Hines Italy’s mixed-use project Porta Nuova continues to showcase the best in sustainable real estate.

In the United States:

If Hines’ ENERGY STAR labelled buildings, LEED certified projects, and LEED registered projects were compared to those of states, Hines would rank as the third most active ENERGY STAR state in 2008, as well as the tenth state for LEED certifications and twentieth state for LEED registrations through 2008. One out of every nine square feet of office buildings that received the ENERGY STAR label in 2008 was a Hines owned and/or managed building.

Green Pays Off

Given Hines’ 50+ year commitment to sustainability and more than a decade of involvement in green building programmes globally, it is not surprising that Hines has found green to pay off. Examples include:

- In 2006, two Hines office towers, both sustainably designed and operated, 1180 Peachtree in Atlanta and One South Dearborn in Chicago, sold for the highest price per square foot in each city’s history.



- In 2006, Hines and investment partner CalPERS established the United States’ first real estate fund focused exclusively on high performance green office buildings.
- In 2007 and 2008, the well-known research study by CoStar and the University of San Diego entitled “Does Green Pay Off?” cited Hines as the leading owner and developer of green office buildings in the United States. The study’s year-end 2008 results reaffirm that ENERGY STAR labelled buildings and LEED certified projects enjoy higher occupancy rates (1.8 to 2.3 per cent higher), rental rates per square foot (\$1.16 to \$7.12 higher) and sales prices per square foot (\$65.90 to \$155.05 higher). Moreover, these benefits seem to be additive if a building is both LEED certified and ENERGY STAR labelled. Even in the midst of global financial crises, recent findings indicate resilient, superior occupancy rates but a narrowing of rental rate premiums relative to 2007/2008’s results.
- In 2008, the National Association of Real Estate Investment Trusts recognised Hines REIT as the United States’ most energy efficient, sustainable REIT with its highest honour, the NAREIT Gold “Leader in the Light” award. The Hines REIT is unique because, as of 2008, every property was either ENERGY STAR labelled or LEED certified, pre-certified or registered.
- Yearly, Hines’ nearly 200 owned and/or managed buildings that are ENERGY STAR labelled or benchmarking:
 - save more than \$110 million, or \$1.20 per square foot
 - save over 10 billion kBtus of energy, more than 30 per cent better than the national average
 - improve air quality and mitigate climate change by avoiding over 500,000 Mt CO₂, equivalent to the greenhouse gas emissions of nearly 100,000 passenger vehicles, and more than 33 per cent less emissions than if the buildings were operated at the national average.
- In 2008, Hines formalised its walking the talk by launching several corporate sustainability initiatives.

Conclusion

So, how can each of us learn from the many crises at hand, reinvent ourselves, fix problems and thrive again sustainably?

Globally and locally, we finally have the tools required to break the circle of blame: we enjoy an increased green awareness and understanding, numerous and more experienced green practitioners, adequate green technologies, a well-supported business case for green buildings and green businesses, and green political agendas. In some geographies and circles, sustainable real estate has even gone mainstream. And corporate sustainability is soon to follow. Will we?

Do real estate projects and stakeholders need incentives to do the right thing at the right time for the right reasons with the right attitude, when it has been shown that sustainability can yield higher short-term and long-term rewards with respect to financial, human and natural capital?

Yes, according to Dan Ariely’s recent book “Predictably Irrational”, appropriate incentives may strengthen the desired long-term, mainstream effect even though the business case is strong enough not to need additional incentives. Financing is still available for economically and ecologically intelligent projects, and increased regulatory and market expectations will motivate laggards.

What elements of Hines’ business model seem to be game-changing and most relevant to all stakeholders?

Hines has been able to break the “vicious circle of blame” due to four factors:

1. culture that defines business as usual as sustainability
2. business approach (rational entrepreneurship and solid business practices) and business structure (privately-held)
3. early and elevated commitment to sustainability
4. ability to attract strong, like-minded and experienced team members and clients who facilitate integrated design, development and operations.

It will be revealing to take up this conversation again at the next iteration of sustainable innovation – perhaps when living buildings and lifecycle analysis go mainstream – as customers, companies, countries and continents collaborate to conquer climate change and redefine business as usual sustainably.

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