

# Retail Exceptionalism: Risks, Challenges & Opportunities

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BCSC Retail Property: Your Way Forward  
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# Risks

1. Reliance on compliance, not excellence
2. Failure to appreciate emergence of convergence; a sense of retail as different
3. Inability or unwillingness to leverage sustainability

# Compliance

- The Bank of America building, LEED Platinum and once hailed as “Manhattan’s Greenest Tower,” is now known as one of the worst performing buildings in the city for energy

*The New Republic, 28/07/13*

- The UK Green Building Council’s chief executive warned that post-occupancy proof of a building’s poor performance could expose the profession to negligence claims

*OnOffice, 19/10/12*

One of the biggest risks is a compliance-based only strategy

# Convergence

**Table 3 Drivers of obsolescence over the next 5 years (1 = highest rank)**

RANK	DEVELOPERS	INVESTORS	OCCUPIERS
1	Location	Energy efficiency	Floorplate size, shape and configuration
2	Energy efficiency	Location	Energy efficiency
3	Aesthetics and quality	Floorplate size, shape and configuration	Location
4	Floorplate size, shape and configuration	Mechanical and electrical specification/condition	Mechanical and electrical specification/condition
5	Floor to ceiling height	Floor to ceiling height	Cost to run
6	Cost to run	Cost to run	Floor to ceiling height

Source: British Council for Offices, *Change for the Good*, 2012

# Convergence (II)

Study	Country	Type	Basis	Impact	Premium
DECC	UK	Residential	EPC	S	14%
Chegut et al.	UK	Office	BREEAM	S/R	26/21%
Brounen/ Kok	Netherlands	Residential	EPC	S	3%
Darmstadt	Germany	Residential	EPC	R	.38-.50 €/m2
Eichholtz/ Kok	US	Office	LEED Energy Star	S/R S/R	11/6% 13/7%
Fuerst/ McAllister	US	Office	LEED Energy Star	Occupancy	8% 3%
Fuerst/ McAllister	US	Office	LEED or Energy Star	S/R	30/6%
Pivo/ Fischer	US	Office	Energy Star	S/R	8/5%
Salvi et al.	Switzerland	Residential	MINERGIE	R	6%

No matter the location, sector or measure there is a differential from sustainability.  
The magnitude may be unclear, but not the direction.

Is Retail Different or is it Next?

# Retail Exceptionalism

- Observers may concede an environmental/financial relationship in other sectors but not retail
- Demand for sustainable buildings from retailers is less than that for other sectors
- Retailers interested in overall occupational costs and customer traffic and less interested in energy performance/sustainability

# Maybe Not: An Example

- In the UK, a retail warehouse had an EPC rating of “D”
- The potential acquirer was concerned about **operating costs being too high**
- They were particularly concerned with the implication it might have for tenants **in the rent review negotiations due a couple of years after the sale**
- They proposed a £1.1 million price reduction on the £7.5 million price and the deal fell through

Source: IGCC, *Protecting Value in Real Estate*, 2013

**What happens when investors bypass EPCs and start asking for real numbers?**



# Leverage

In a study of LEED-certified and non-certified retail bank branches, LEED properties:

- Had lower utility costs (\$675 per employee)
- Had more deposit accounts opened and larger deposits made
- Had employees with higher self-reported rates of satisfaction and productivity

Source: Conlon and Glavas, University of Notre Dame, 2012

# Leverage (II)

In a study of day-lighting in retail stores:

- Energy savings from day-lit stores were the equivalent of \$.25/sf
- The profit from increased sales was worth 20 times more than the energy savings
- Employees within day-lit stores reported higher satisfaction rates

Source: Heschong Mahone Group, 2003

The real opportunity comes when you stop thinking about what sustainability can save and start thinking about what sustainability can earn

# Beyond Energy

THE  
NEW YORKER

THE FINANCIAL PAGE

**TWILIGHT OF THE BRANDS**

BY [JAMES SUROWIECKI](#)

FEBRUARY 17, 2014



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**Michelle Kilfoyle and Hayley Birch**

Citizen science isn't new, but new mobile technologies open up huge potential benefits for science, society and the environment.

6 January 2014



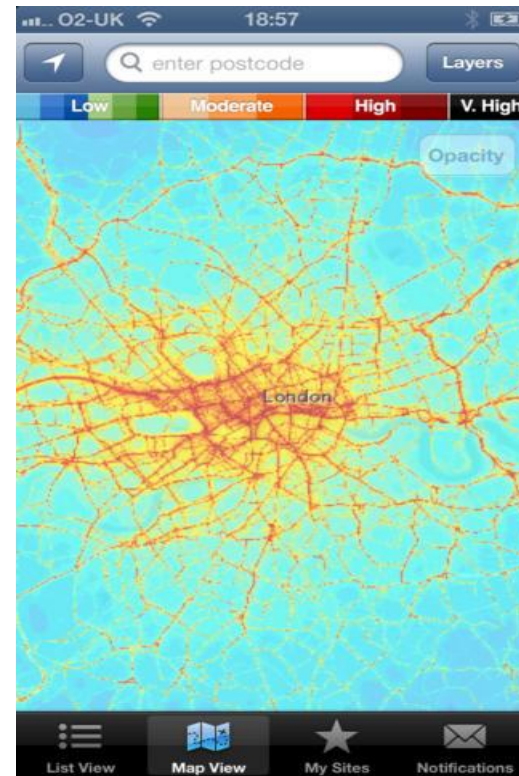
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It's "one of the fastest growing parts of Fitbit's business," CEO James Park told Forbes.

By [Jack Smith IV](#)

4/18/14 3:15pm

# Participatory sustainability



# Predictions

1. Performance will become better known
2. Aided as much by individuals as experts
3. Well beyond energy into areas of health, wellbeing & productivity
4. With disclosure not just to buyers / tenants but to the wider world
5. With financial and reputational ramifications that are not yet appreciated by the industry



# Sustainability and the customer

- Energy is only one measure of performance
- Game-changer: combining energy and other types of building performance
- Sustainability and the customer experience
- From “back of house” to shop window
- Leveraging sustainability: lower impacts, higher profits and community / customer engagement

Fundamental question:

Is the building an asset for the person who does not own it?



WORLD GREEN BUILDING COUNCIL

# **Global Project to Boost Business Case for Health and Productivity Benefits of Green Buildings**

# Thank you for listening

Please come and talk to us at any time:

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