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Sustainability trends in commercial real estate: Environmental, Social, and Governance (ESG) - by Steven Schleider

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Green buildings. Wellness. Green roofs and urban farms. Biophilic design. Solar technology. Net zero. We've written about sustainability in commercial buildings on a myriad of topics.

Once an enticing buzzword and brand positioning, green is now mainstream. Ratings are no longer the be all/end all. Green roofs and solar are now mandatory as per NYC Local Laws 92 and 94 which require all new buildings and those undergoing major roof renovations to install a green roof, solar or a combination of both. Biophilic design, including views, daylight, natural textures and materials, water features and greenery designed to bring nature inside, has taken hold.

So, what is new in 2020? There are advances in solar technologies; more specialized technologies for comfort, health and productivity from individually-controlled lighting and temperatures; the growth of restful, quiet indoor spaces; and decreases in drywall separations in offices to promote community and productivity.

But as a professional appraiser who values commercial real estate on behalf of financial institutions, investors and owners, the trends that bear the most watching are who is doing what for what market. A company's commitment to Environmental, Social, and Governance (ESG) – sustainability and societal effect – has become a significant factor in investment decisions.

Rating a company's ESG is relatively new although forward-thinking financial institutions' due diligence has long factored in the value of facilities that have gone green, have sound environmental practices, incorporated LED lighting, solar, forms of energy savings, green roofs, etc. As said in Wikipedia, "Philanthropy was not known to be a highly profitable business," so it's taken the industry a while to get to a seminal point. But today's ESG, for which there are ratings agencies and consultants, is a far cry from the early days of creating environmental policies because companies felt they should, not because it would contribute to the bottom line.

Climate change, the need for diversity and making a positive difference in communities have also become factors in planning sustainable corporate business strategies and tactics. ESG ratings can have a negative impact on access to capital if there are little to no environmental and sustainability goals and practices in place.

With that brief overview of who is doing what, now the question is: For whom? The answer is younger generations. Entrepreneurs. Start-ups. The continuing boom for TAMI – Technology, Advertising, Media and Information – space. Competition to attract the brightest talent.

Today's young people are looking for space and companies that are committed to sustainability best practices and for those making a positive difference not only in their employees' health and well-being, but in the local community and as macro as the global environment.

According to a Neilson survey, Millennials and Gen Z are the first generations willing to pay more for sustainable. What does that mean? That a young person making a purchase decision won't simply choose a drugstore or luxury brand, but will want to know if the product is tested on animals, the ingredients, if this in synch with values and lifestyle. It's part of the food trend of farm-to-table, Fair Trade coffee, if a shirt is made in a sweatshop or hand-made of locally-sourced organic cotton. In short, decisions are being made based on whether a product hurts or helps an environment and its people. Enter ESG when it comes to office space and choosing to work for a company.

Youth-oriented technology and creative sectors are fueling office market growth. According to a Cushman & Wakefield report, TAMI companies leased 74.3% more space in Manhattan by last year's second quarter than the previous year. These companies' needs are different. No traditional large spaces in prime markets favored by law firms and financial institutions for them. They are much more likely to seek small to mid-size spaces in Midtown South or Downtown.

Now take that mindset and think about the intense competition among companies to attract, motivate and retain young talent. What will they need to offer in its company policies, buildings and offices?

As more and more baby boomers retire, the workplace has and will continue to compete for younger workers whose career goals include not only salaries and growth potential, but also accommodating their sense of well-being, how in sync companies are with their values and lifestyles, and what contributions are being made to local communities and global environments.

An entirely new generation of innovators, workers and consumers have begun to rule the world. Only companies with a death wish will ignore their clarion call.

Steven Schleider, MAI, FRICS, LEED-AP BD+C is the president, Metropolitan Valuation Services, New York, N.Y.

New York Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540