

The Sustainable Developer

Sustainable development has become the new buzz word in real estate, and has taken up most of the seminar time at this month's ExpoReal in Munich: But is it commercially viable to real estate developers?

Green is the new black. Sustainability has been gathering pace in the corporate world over the past few months and judging by the seminar list for ExpoReal 2007, to be held in Munich this month, commercial developers are also waking up to the concepts involved.

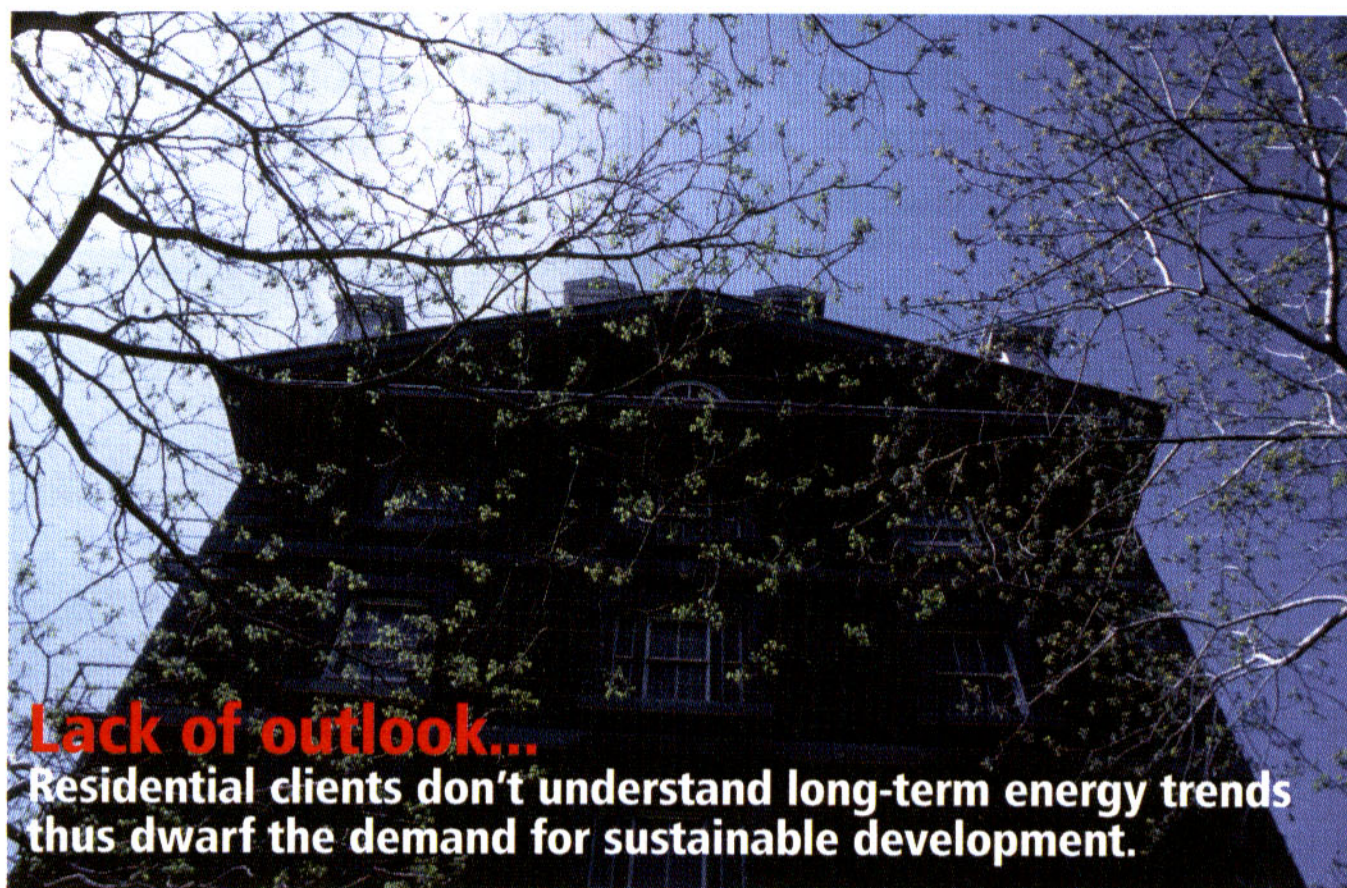
Real estate sustainability is the balance of the trinity of urban planning, construction design and technique, and end user expectation. For the commercial developer the most direct impact they can have is in applying ecological technology to meet user requirements and in changing design and construction techniques so as to leave as small an ecological footprint as possible.

Ironically the biggest motivator for developers to apply sustainable technologies in their new projects is the lack of established infrastructure. Yet this often berated aspect of Poland may actually give it an advantage in the application of sustainable technology. Just as with IT and telecoms the lack of legacy issues means that Poland can leap from old technologies to the latest.

The dramatic increase in land prices across the whole of Poland has driven responsible developers to look for affordable sights often at the expense of easy access to services (water, gas, electricity and sewage). The cost of site connections over 250 metres can run into hundreds of thousands of euros and developers both large and small are looking for alternatives.

Landoor Architectura, a small design and development company in Warsaw, has been forced to consider alternative energy sources for its latest development of 22 houses on the outskirts of Wilanów one of Warsaw's more exclusive districts. "The cost of the main gas connection is prohibitive so we are looking at using heat pumps

for the main air and water heating," says Landoor's managing director, Marcin Maciejewski. "We used this on our last project and the monthly savings mean that the additional capital outlay is recovered in a few years at current energy prices. For our new project we are looking at using alternative energy for all but cooking and lighting, and the total construction costs is around PLN 75,000 to PLN 80,000 for a 225-metre house. For a house selling at PLN 1.2m to PLN 1.5m this cost premium is not significant so we absorb it ourselves."



Lack of outlook...
Residential clients don't understand long-term energy trends thus dwarf the demand for sustainable development.

This generosity is not limited to small developers. Orco, a considerably larger player, has taken a similar approach to some of its schemes in Poland, especially at its Szosa Polska housing development near Szczecin. "We are aiming to create the first truly sustainable housing estate in Poland," said Douglas Noble, general manager of Orco Poland. "The lack of established infrastructure has required us to meet our targets for using alternative solutions. To avoid storm water issues we are implementing a rainwater treatment facility to allow us to use this water in domestic appliances and for toilet flushing, thereby reducing our consumption of drinking quality water." The incremental costs of this and other environmental aspects of the development are being covered by

Orco and not passed on to the client. "Residential clients are not asking for these elements in their houses possibly because of their perception of the additional costs but more likely because they do not appreciate the lower life cycle costs of the building and lower energy bills they will have in the future," added Noble.

The lack of demand from private residential clients is driven by a lack of understanding of long-term energy trends. According to Guy Perry of IN-VI, "with energy so cheap people have no incentive to conserve energy so energy efficiency is just not on their radar screen". This point is supported by Mats Johansson of Skanska Property. "We have the technology to offer tenants totally transparent reporting of energy consumption but generally they do not want it," he says. "Ironically the only really interested client was a large oil company client who understood the trends."

The understanding of life-cycle costs are fundamental to the appreciation of sustainability. During a commercial buildings life 85% of energy use is attributable to its

use, the remaining 15% being used in its construction and though is the smaller percentage it's immediacy and impact is the one most commented on. Sustainability at the construction stage can be implemented in various ways.

First, choice of site: the green-field verses brown-field debate. The latter has often been seen a last resort owing to the additional costs from site clearing, underpinning to compensate for weakened sub soil and longer construction times.

However, as developers are challenged by zoning restrictions and increasing land costs brown-fields are becoming more tempting. Prologis one of the world's largest industrial space developers, has been drawn to brown-field development in the UK and the US. On their web site they state, "Undertaking mixed-use is sometimes the only practical way to access new industrial land...".

The choice of materials can also reduce a developments carbon footprint. Orco is to use timber framed houses in their new Szczecin development. "Current timber processing technologies give us guarantees of 100 years," says Orco's Noble. "On top of this there are the faster completion times inherent in using prefabricated systems." However, there is a downside to

cheap pre-fabricated construction. “The use of pre-fabricated timber framed houses was one of the primary causes of uncontrolled suburban expansion in the US,” says Guy Perry. “If these techniques are to be used effectively they must be part of a broader development plan otherwise any points earned will be wasted on the later costs of transport pollution.”

Of the usage element, 50% is attributable to the buildings services, ventilation (including heating and cooling), lighting of common areas and other services such as elevators and car parks. The balance is consumed by the tenant and even though most modern buildings will supply detailed usage reports most tenants don't take it up. “As responsible developers we can only impose standards of consumption on the common areas under our control,” points out Johansson. “Of course as long as we meet client comfort standards. But we do not wish to impose standards on our clients own space.”

But it is the clients understanding of comfortable standards which lie at the heart of resistance to sustainable development. A recent report by Arup, a global engineering consultancy, observed that in order for sustainable concepts to be incorporated into buildings then the clients expectations on comfort need to change. Expectations have to be based on needs not wants. Energy efficiency in buildings is about replacing the “on-demand” nature of consumption and getting people used to a stable environment managed by the building itself as it aims towards agreed norms.

The gold-rush fever that has engulfed commercial and residential real estate in Poland over the past two years has left little time to consider the planning and construction aspects of sustainable property development. However, now that some stability has returned a more considered approach to the long-term nature of commercial real estate might be taken as both developers and investors look for an advantage. “The more experienced institutional investors understand and appreciate the sustainability trend and if they require these features in new buildings, developers will have to deliver,” says Johansson.

So it comes down to what clients (tenants) want, or more specifically what are they prepared to pay for, according to Jan Schwarz of Raiffesien Capital Management. “It all comes down to euros and cents. Companies only want to lower

costs, unless they have a specific mandate from their shareholders to pursue a green strategy they will not pay any premium,” he explains.

But if applied correctly eco-friendly design aspects can reduce costs over the building's life cycle, the problem is that the two components, additional capital costs and reduced operating costs, are in two parts of a tenant's contract. The capital is in the rent and the cost reduction is in the service charge. “The problem is that in a tight market rents are very competitive and tenants only want the best deal,” says John

Banka from real estate consultants Colliers. “On top of this whereas the operator could expect to see reduced costs in the service charge compensating the rent because most deals are open book then the tenant gets the upside there as well.”

With the tight markets in Poland and the rest of the region there is no pressure on either developer or operator to supply green buildings if the diverse tenant base does not require it. So despite growing awareness of environmental problems, Poland will have to wait some time for a green-building revolution. ■ Neil Crook