

CRE and the Corporate Sustainability Agenda

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When it comes to sustainability, where do CRE executives sit in the hierarchical tree? Rodney Timm reports.

Corporate sustainability is far more than regular profit reporting. With impending global environmental catastrophes and increasing world conflict, corporations are being driven by their stakeholders to report on their contribution to global and community sustainability.

The response has started to emerge in the form of triple-bottom-line annual company reports with corporations eager to illustrate their contribution to the planet and the community. For the uninitiated, triple-bottom-line reporting has corporations accounting annually not only for their financial performance, but also their environmental and social performance.

And with a growing base of ethical investors, as well as more vocal environmental and social activists joining these causes, it obviously makes good business sense to support these initiatives – hopefully with real responses and not just lip-service.

The question being debated in the property world is “should the sustainability debate be on the CRE agenda?” Or, possibly the question should be framed thus: “will the CRE executive survive if he does not focus on the corporate sustainability agenda?” Not convinced? Well read on ...

Financial Performance

The obvious place to start is corporate financial performance, an area in which everyone in business has a keen focus. The impact that real estate transactions have on the income statements and balance sheets (and the requisite skill base to understand these impacts) has become a key focus area for the emerging CRE professionals in the last decade. As is often stated, the CRE executive is generally in control of the company’s longest-term liabilities – leases – and/or the lumpiest assets – owned buildings.

The key challenge to support financial performance and sustainability in a highly competitive and predatory business world is providing a competitive market workplace or real estate advantage. This includes reducing recurrent operating costs to match productivity requirements; converting fixed costs into variable costs to track revenues; structuring flexibility arrangements in long term real estate commitments to match business agility needs; and making lumpy assets more liquid by focusing on exit strategies.

Affirmative – aligning real estate with corporate financial strategies will contribute to company financial performance.

Environmental Performance

The second dimension of the sustainability debate is the environment. At a basic level the real estate caretakers have always tended to end up with having to manage the industrial property environmental disasters and clean-up legacies caused by others. An unenviable responsibility, but one which will probably still continue for many years. Hopefully in this era of awareness, pro-active forward planning will prevent these potential corporate catastrophes.

Fortunately the controllers of the corporate built infrastructure assets – be they offices, retail outlets or factories, owned or leased – can now proactively manage these commitments to provide positive corporate contributions to the environment. Even those organisations that are not involved in dirty, polluting activities and processes, can nevertheless contribute significantly to the global sustainability agenda. Accommodation and location decisions are the obvious fulcrum points for corporate environmental statements. Major relocations tend to occur only once a decade or once a real estate cycle, and the opportunity should not be ignored.

Corporations should take this opportunity to be seen as leaders in environmental advocacy by showing no compromise in embracing environmentally sustainable development (ESD) principles – whether new locations are owned or leased; whether buildings are old or new. The corporate users, however, need

to drive this agenda as many speculative developers are probably less likely to take the initiative, being driven by shorter term profit horizons linked to the property cycles.

Buildings with five star ratings not only make financial sense when the numbers are done comprehensively in terms of life-cycle costings and energy savings, they can also be used as a statement to reverse a legacy of excessive contributions to the greenhouse gas problem. Green does not have to cost more, provided a true life-cycle costing is undertaken. And if carbon credit trading does become entrenched and real financial benefits become evident, CRE executives will have to add to their multi-disciplinary arsenal of skills.

Affirmative – within the organisation the CRE executive is probably the most well-qualified to drive the environmental agenda – both short- and long-term.

Social Performance

Corporate social responsibility can be split into a number of different stakeholder groups. The CRE executive, once again, can take a lead in responding to the needs of all of these.

The workplace under control of the CRE team is one of the key areas for a corporation's social commitment to its internal stakeholders – their workers. This will include not only the office building and workplace layout, but also the work stations and furnishings, the support amenities including break-out areas, rest rooms, childcare facilities, disabled access and the like. These responses may be within and in the surrounds of the corporate offices and business parks.

The built environment is also a forum for interaction with the greater community – and the ability to show an even greater commitment to social responsibility. This may start with a location decision in support of deserving pools of employable resources. A key corporate location into an area of relatively high unemployment can uplift a community and provide a pool of loyal employees. These aspects should not be ignored in the site selection process.

Providing the irregular use of facilities to deserving community groups may be a small management irritation to the CRE team, but may provide a large benefit to the community.

Affirmative – although the social performance of real estate and workplace decisions are probably the most challenging to assimilate and quantify, this is the aspect of social responsibility in which the CRE executive can undoubtedly take the lead.

Corporate Sustainability

Corporate sustainability is, however, ultimately far more than triple-bottom-line reporting – essentially it means financial performance, both in the short- and long-term, and the survival of the business in the face of new economic uncertainties and challenges from new, emerging competitors. This demands a holistic approach to business risk management across the whole spectrum of risks.

For the CRE executive these risks are more than the usual “slips and trips”, health and safety, security and fire, business continuity and similar risks. It also means managing the uncertainties of the real estate market and providing the flexibility in real estate commitments and liabilities. This flexibility is necessary to ensure that the workforce is engaged productively in the right place, at the right time and at the right price to remain competitive – but with the appropriate range of exit and growth strategies.

So, should corporate sustainability be at the forefront of the CRE executive's mind? Affirmative. Many of the aspects touched on in this article are probably already being covered by CRE departments – but their importance is not being sold in the context of corporate sustainability. Perhaps this is the emerging cause that CRE departments should link onto, to make sure their true corporate contributions are being recognised.

Rodney Timm is director of Property Beyond Pty Ltd – rodney.timm@propertybeyond.com.au

by Rodney Timm
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