Green building incentives
A strategic outlook

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Abstract

That there is great potential in the environmental benefits in the real estate area is obvious and theories from the research society on how to make them profitable for the real estate companies are many. However, it is still unclear which path to choose, in order to make theories become realities.

The objective of this study is to analyze some of the strategic factors behind the choice of green buildings investments focusing on the Swedish market. The purpose is to understand the way real estate companies in Sweden manage the risks and opportunities in these green investments. The aim is to recognize the underlying framework for understanding the customers and their needs for a productive environment in commercial buildings.

This thesis has concluded that the management of real estate companies is preceding the development of green buildings with caution. There are still knowledge barriers between management and actual real estate manager or rental department on how to communicate the “green” benefits for the buildings and the leases. The study also found evidence for the real estate companies’ problem to account and communicate the unique selling points (USP) of the “green” premium in a lease. Government policies and financial incentives on credit arrangements are seen as to become more important for a positive development of conventional buildings into “green buildings”. The ever growing importance of Corporate Social Responsibility might also become one of the driving factors for the development of more green buildings in Sweden.
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**List of Contents**

1. Introduction .............................................................................................................................................. 5

   1.2 Objectives of this study .......................................................................................................................... 6

   1.3 Justification of the project ...................................................................................................................... 6

   1.4 Research questions ................................................................................................................................. 7

2. Methodology ............................................................................................................................................... 8

   2.1 Research Design .................................................................................................................................... 8

   2.2 Data Collection ...................................................................................................................................... 8

   2.3 Sample .................................................................................................................................................. 8

   2.4 Practical and Ethical Issues .................................................................................................................. 9

3. Literature review ........................................................................................................................................ 10

   3.1 The impact of green buildings ............................................................................................................. 10

   3.1.2 New products / services .................................................................................................................. 12

   3.1.3 Improved business processes .......................................................................................................... 12

4. Classifications .......................................................................................................................................... 13

   4.1 The Swedish market .............................................................................................................................. 13

   4.2 Certification systems ............................................................................................................................ 14

   4.2.1 LEED .............................................................................................................................................. 14

   4.2.2 BREEAM ....................................................................................................................................... 14

   4.2.3 EU Green Building .......................................................................................................................... 15

   4.2.4 Miljöbyggnad .................................................................................................................................. 15

4.3 Analysis ................................................................................................................................................ 16

4.4 International critique ............................................................................................................................... 16

5. Lack of financial incentives ....................................................................................................................... 18

   5.1 Market incentives and rental contracts ................................................................................................. 19

   5.2 Green Leases in Sweden ...................................................................................................................... 20

6. The importance of Social Responsibility ................................................................................................... 22

   6.1 A European perspective on successful real estate companies .............................................................. 24
1. Introduction

The environmental aspect of commercial real estate has become more important, since the threat of climate change is becoming a reality. More investors are beginning to realize its destructive financial implications. Because buildings with their construction and operational activities (the “built” environment) account for at least one third of global greenhouse gas emissions\(^1\), statistical evidence from the US make the real estate sector one of the largest contributors (Kok et al. 2009a).

It’s commonly known that energy represents a significant part (about 30 percent) of operating expenses in the typical office building. This expense is the single largest and most manageable item in the provision of office space (Kats 2003). Furthermore, rising energy costs that we have seen during the last few years increase the importance of this issue for profitability of investment in real estate.

Therefore it’s important that investors see the possibility to turn environmental risks into opportunities, as energy efficient investments in buildings have positive net present values. Research made by The European Centre for Corporate Engagement (ECCE) confirms these opportunities: rents of energy efficient buildings are higher than conventional buildings by 6 to 8 percent, occupancy is higher and less volatile, and transaction values are higher by up to 18 percent (Piet et al. 2010).

However the corporate culture of real estate is still somewhat conservative and many actors may not be planning to incorporate “green tech” for the nearest future, because the path to get there might not be so obvious.

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\(^1\) Evidence suggests that the construction and operation of buildings accounts for about 40 percent of worldwide consumption of raw materials and energy (RICS, 2005). In the U.S., the buildings sector account for some 70 percent of total electricity consumption.
1.2 Objectives of this study
Previous studies in the field of green buildings have recognized that investors and owners who undertake “green” strategies will sustain future downturn in the economy and most possibly out-perform counterparts who have not (Nelson, 2009). The following literature review and research will address the impact and benefit of green buildings, how to create financial incentives for owners and investors and how to attract new or existing tenants through communication of the real estate specific resources.

The objective of this study is to analyze some of the strategic factors behind the choice of green buildings investments focusing on the Swedish market. The purpose is to understand the way real estate companies in Sweden manage the risks and opportunities in these green investments. Recognize the underlying framework for understanding the customers and their needs for a productive environment in commercial buildings. Even if it is a step by step procedure, the belief is that this study can influence and guide the way real estate investors communicate the green building specifics to its stakeholders. In this study we will also summarize some of the important previous research connected to green buildings/investments, as this field of research is under constant change.

1.3 Justification of the project
The current research on green buildings and sustainable environment is somewhat extensive and is very much a trend among scholars and researchers to write about. As this research will be conducted with the insights from a Swedish real estate company, the intention is to contribute to more knowledge about the previous mentioned objectives. How to create financial incentives for owners and investors when building ”green” and how to attract new or existing tenants through real estate interventions. Recognize the underlying framework for understanding the customers and their needs for a productive environment in commercial buildings.

The real estate companies in the Swedish market are one of the key stakeholders in the transformation into a more sustainable built environment. They are also described as one of the players in the “circle of blame” theory of why the process towards a sustainable built environment has been so slow by critiques. Previous literature of the green building field in Sweden has focused on energy specific measurements, tenant perception, the certification
system, valuation measures etc. This study will focus on what is present today in the management of commercial real estate and the green alternatives in the market.

1.4 Research questions
To comply with this thesis purpose the following research questions will be answered.

What factors determines the choice for choosing LEED, BREEM, EU Green Building etc. certifications? Did the financial partner influence your choice?

Is there always an environmental focus for new investments/acquisitions?

Are you able to account for a “green premium”? And how is such communicated?

In what way has the corporate social responsibility influenced your decisions to invest, communication to stakeholders?
2. Methodology
This chapter’s purpose is to describe and justify the choice of methods used to meet the previous stated objectives. To analyze some of the strategic factors behind the choice of green buildings investments focusing on the Swedish market. The purpose is to understand the way real estate companies in Sweden manage the risks and opportunities in these green investments. Recognize the underlying framework for understanding the customers and their needs for a productive environment in commercial buildings.

2.1 Research Design
This thesis is a qualitative study based on descriptive research.

2.2 Data Collection
As no secondary data exist in this field of research primary data collection will be collected through phone/face interviews. The questionnaires will include both "closed end" type of questions as open questions. The result will then be analyzed in the interview summary of this study. In the next 3-7 chapters, a literature review of secondary data has been used to get an overview of the front edge of the research field. Most of them originate from scientific articles and reports in order to get a better understanding of the legal, economical and physical aspects of ”green” commercial real estate and finance. Since there are large amounts of previous studies in the field of green buildings I have chosen to limit this literature review to the most recent and, in my point of view, most relevant articles or studies of green buildings.

2.3 Sample
As the real estate sector is believed to be a quite homogenous group described in previous literature Sundqvist et al. (2006) & Bonde et al. (2009). This sample will include 4 different Swedish real estate companies. Three of the companies are listed on the Stockholm OMX stock exchange. The one who is not listed is however comparable in size and direction with the mixture of both offices and industry spaces. Their markets vary geographically from Stockholm to Malmö in the south of Sweden. Two of the companies have given the research access to more than one person interviewed. In total there have been between 6 formal interviews and 4 informal interviews where information have been collected to this research.
2.4 Practical and Ethical Issues
The Swedish counsel of science has developed three research ethical rules, which will be addressed accordingly in this thesis.

- Before the interviews the respondents will be informed of this study’s purpose and to participate is optional.
- The information about the respondents will be confidential. But the summary of the results will not, as they are for public publicity.
- The information gathered will only be used for scientific purposes. But the summary of the final results may be used for commercial interests.
3. Literature review

3.1 The impact of green buildings

Several previous researches have discussed the importance and impact of green buildings. In 1995 Hart, concluded that real estate can play a significant role in reducing the ‘ecological footprint of firms, and that the use of green space by firms and organizations has received much attention in the fast growing management literature relating to business organizations. In 2007 Etzion made a comprehensive literature survey of this management literature and found that corporate housing decisions and real estate were not mentioned at all (Eichholtz et al. 2009a).

The demands from corporate tenants have also become important factors for the shift to a more sustainable built environment. Trend analysis show that there is a change in demand among corporate tenants that force real estate companies/suppliers to adapt to the expectations of the tenants. This bring financial incentives for the property investment industry, as this affects the rental rates on commercial property by more customers are willing to pay for ”green real estate services”. According to researchers, it’s possible then for non-green property will depreciate faster and occupancy rates will be lower (Nelson, A. 2008).

Eichholtz, Kok, & Quigley, (2009) studied the economic value of U.S. green office buildings, finding that such green buildings command a premium in rental rates and sales prices over conventional office buildings. The founding of this research is that buildings with a “green rating” have rental rates that are roughly three percent higher per square foot than otherwise identical buildings. Moreover, the analysis indicated that these rates are less volatile than rates in conventional office buildings. Premiums in effective rents are even higher – above six percent. Selling prices of green buildings are higher by about 16 percent.

Result analysis of these findings explains the variation in premium for green office buildings, that the higher premium is related to the green property energy-saving characteristics. Calculations show that a one dollar saving in energy costs from increased thermal efficiency yields roughly 18 dollars in the increased valuation of an Energy-Star\textsuperscript{2} certified building.

\textsuperscript{2} Certification systems such as LEED and Energy Star have gained international recognition and are increasingly demanded by investors operating on the international market. See chapter 2 for classifications.
Beyond the direct effects of energy savings, further evidence suggests that the intangible effects of the label itself also play a role in determining the value of green buildings in the marketplace (Miller et al., 2008).

According to all this previous research, one can conclude that there is an identifiable group of tenants willing to pay a premium on order to lease these spaces. Therefore, it is important to understand the motivation behind the choice of choosing green buildings. Both the property sector and the investment community have incentives to better understand and identify the characteristics of potential customers. The other aspect is that managers and policy makers can decide on what kind of regulation and control mechanisms to promote these investments (Eichholtz et al., 2009b).

In December 2010 Jones Lang LaSalle (Jenowien et al. 2010) presented a paper to provide a basis for the specific issues related to climate change and suggestions on what is required from real estate developers, investors, asset managers and real estate services companies. They believe it is essential to have a forward-looking and strategically-oriented company leadership that needs to build an understanding of climate change and the management tools and processes to handle its impacts. Like many other metrics that have now become essential management tools for sophisticated organizations (financial ratios, human resource statistics, business planning documents), climate change impacts, on and by real estate, may one day become an essential management tool. Companies that start to put in place climate change-related expertise and policies early will create a differentiating competitive advantage being better armed to provide climate change-related services and transparency to their stakeholders. In the report they list possible new products and services suggest on how the business process can be improved.
3.1.2 New products / services

- Green certified buildings may be more attractive to occupiers, and thus owners, and may provide protection against value loss or increase of their portfolios through the emergence of a two-tier real estate market.

- Energy performance-labeled buildings provide lower operating costs and higher occupier comfort and wellbeing, thus increasing their value to their owners.

- Additional revenues may arise from the sale of carbon credits based on energy efficiency improvements in buildings if new legislation comes into force.

- New revenues may arise from leasing roof space for solar panel investment projects.

- Opportunity for landlords to provide a heating/cooling service to their tenants, thereby retaining the incentive to maximize efficiency.

3.1.3 Improved business processes

- Improved energy consumption management leading to decreased operating costs and improved occupier comfort.

- Improved development project positioning for planning authorities based on inclusion of energy efficient buildings and sites enhanced through public transport access.

- Requirements on the client side (occupiers of energy and carbon efficient office space) influence the way companies define their needs toward their own suppliers, leading to a more sustainable supply chain of products and services.
4. Classifications

Currently, the market contains several different systems to classify a building's environmental attributes. The American LEED (Leadership in Energy and Environmental Design), Britain’s BREEM (Building Research Establishment Environmental Assessment Method) to Australia's Green Star rating system. In addition to these three, many countries have developed their own classification systems. In Sweden a system according to "Bygga Bo Dialogen" framework have been developed (Miljöbyggnad). Common to all is the analysis of the environmental footprint a new building creates from aspects such as; what materials have been used and how much energy the building consumes. Moreover, in addition to these you have simpler systems focusing primarily on a certain aspect, as energy consumption or indoor environment. Such systems are typically European EU Green Building or Swedish P-märkningen.

In this chapter we will present the most commonly used classifications shortly. To understand their background and to whom they might apply will be a part of the analysis in chapter 5. Finally a short analysis will follow primarily focusing on the Swedish market regarding these systems and some of the critique pointed out by other researchers.

4.1 The Swedish market

In the Swedish market 37 systems have been identified to measure a building's environmental aspect (Sundkvist et al, 2006). The fact that there are a lot of different systems makes it even more complicated when most of these systems only measure a few aspects of a building, for instance indoor environment, which makes it harder to grasp a full picture of the environmental footprint caused by it. This has created somewhat of confusion on the Swedish market, contributing to difficulties in communicating the green buildings attributes to the market (Bonde et al 2009).

During the spring of 2009 the Sweden Green Building Council were founded to take on the Swedish development of an international standard for green buildings. In 2011 they have chosen to focus on these four types of standards for certifications.
4.2 Certification systems

4.2.1 LEED
LEED is originally from the USA and is administrated by the United States Green Building Council (USGBC). The LEED certification was introduced in 1998 and has since spread across the world to 91 different countries. Since the start 4327 buildings have been LEED certified and approximately 25 000 buildings have registered to become certified per December 2009 (SGBC 2011). Adjustments for local needs of the LEED system have been made by Canada and India. For other nations the certify process has to be done by USGBC, meaning that the American standard must be used. Sweden Green Building Council is currently in work of adjusting the system to Scandinavian conditions. LEED can be adjusted for all types of buildings through modification of the entry-level version of LEED. The version used in commercial real estate certification evaluates the buildings environmental impact on these factors: Surrounding environment, water usage, energy consumption, building material and indoor environment. To register a project for LEED certification imply both a registration fee and a certification fee based on the level of LEED to be certified and size of the building. Additional re-certification fees also occur.

4.2.2 BREEAM
BREEAM has its roots in United Kingdom and are developed by the Building Research Establishment (BRE). This system was already introduced in 1990 and makes it the oldest environmental classification system (Saunders, 2008). The environmental efficiency of the building is graded in order to communicate this to the market and making it more attractive to investors. The BREEAM system is the dominating system in the UK by its cooperation with United Kingdom Green Building Council (UKGBC). 115,000 buildings are certified and additional 70,000 are registered for BREEAM consideration (SGBC 2011).

BREEAM have developed different evaluation tools and manuals for different types of buildings. These can be used for existing buildings as well as new under progress. The buildings environmental performances are evaluated in different areas. There are minimum demands for scores concerning: Project management, energy usage, indoor climate such as ventilation and lightning, water usage, waste disposal, land management and influence on the
local environment (SGBC 2011). With BREEAM certification they also evaluate and grade the buildings distance to public transportation. Currently in the Swedish market real estate companies can become certified by BREEAM International Europe in cooperation with the Swedish Green Building Council (SGBC 2011). Certification fees are determined by the size of the building, with an initial registration fee and closing fee when the certification process is complete.

**4.2.3 EU Green Building**

Green Building is an EU initiative launched in 2004 in order to speed up the energy efficiency process in the construction and real estate industry. In Sweden this type of certification has become a strong brand and by May 2010 over 200 commercial properties had been certified. Since the 1 of June 2010 the Swedish Green Building Council is responsible for the registration and evaluation of the certification. A Green Building certified property must prove to use 25% less energy than before or compared to what is prescribed by BBR for new buildings (SGBC 2011). The energy efficiency measurements and the result are managed by Sweden Green Building Council. This system is simple, because focus only on energy reduction, and have low cost associated with certification

**4.2.4 Miljöbyggnad**

Miljöbyggnad (once called Miljöklassad byggnad) is a Swedish system for certification of buildings concerning four aspects: energy, indoor climate, chemical usage, special environmental demands. This system was developed to protect for peoples health and environmental issues (SGBC 2011). The system is used for both private and commercial property. The building is audited by 15 remarks concerning energy, indoor environment and material used. The development of Miljöbyggnad was initiated by ”Bygga Bo Dialogen”’s in cooperation with scientist and companies in the construction- and real estate industry. The goal was to create a system to be simple to use and scientifically anchored.
4.3 Analysis
The lack of transparency between the different international systems makes it difficult to compare the result from the different certifications. The reason for this is the systems treatment of different questions as they are based on different legal aspects, environmental laws and building criteria. As Öhrling (2009) and Bonde et al. (2010) pointed out, the American LEED standard differs from international standard and there is low transparency when the different systems consider the same environmental aspect but in different categories. An example of that is the "legionella issue" where the Green Star system categorize it in "Emissions" while BREEM and Miljöbyggnad categorize it in "Health and Wellbeing" and LEED system does not take this into consideration at all.

A characteristic feature for all three systems (LEED, BREEM, and Green Star) is that they all have become the dominating green building evaluation system in their country. The reason for this is probably the development of the system in close cooperation with the existing real estate sectors in each country. Demand from the real estate sector has shaped each of its system in order to develop a green building standard suitable for its participants. Secondly, the systems have been developed with a third party involved in the classification process, which have strengthen its popularity by making sure that the classification have been done properly. Each system has also been publicly administrated by an organization with strong influence on each real estate sector, Bonde et al (2009).

A possible development for the Swedish market is described by Bonde et al. (2009). They believe that smaller real estate companies, with domestic customers, will use "Miljöbyggnad", compared to companies willing to attract international investors and tenants will use Scandinavian versions of LEED or BREEM, alternately the American or British versions. Other possible scenarios are that companies will classify buildings with several classifications (Sweden's Waterfront Building is an example). Moreover, what system will dominate in Sweden, in a few years’ time; will also be affected by the government, local municipalities, banks, insurance companies etc. because these groups have their own incentives.

4.4 International critique
The different certifications have also gained their share of international critique, most noticed is the article "LEED is broken, let's fix it" written by Audrien Schendler and Randy Udall, in which the authors' points out a systematic flaw that the LEED-certification market
value decreases with the numbers of certified buildings. This counteracts the purpose of the certification process. Bonde et al. (2009) concur with this and also makes the critique valid for the other classification systems by pointing out that only 2,476 buildings have been certified with LEED since its start in late nineties. Further examples are the Green Star rating in which only 50 buildings have been certified in 2008 since its start in 2003. The authors also criticize the marketing of green buildings, including LEED certification, where they claim the positive effects are being exaggerated while the costs aspects are diminished. According to the economic benefits in green buildings, higher productivity, higher perceived value of goods and services, operational efficiency etc., are all difficult to quantify and are also something revealed over time. This compared to the extra costs by building green and costs for certification that load on to the budget. The authors’ points out examples were the constructor has chosen not to certify because of these extra costs, instead choosing to implement ”green installations”. This may explain the low number of certifications.

Furthermore, the certification process as it looks today is also subject of critique in the article. The process is described as very bureaucratic and stiff which means extra costs and time-consuming processes. The authors suggest that the process needs to be shorten and simplified and more authority to the certifiers in the decision process. The certification processes also need to be constructed in such way that the building proprietor not only focuses on taking the simplest points but building green and energy efficient. This can be made possible by increasing the minimum level required and distribute the weights to advantage for those measures that promote a greater environmental profit. As mentioned by one of the building proprietor in the article: ”We received one point for spending an extra 1,300,000 USD extra on a heat recovery system that will save about 500,000 USD in energy costs per year. We also got one point for installing a 395 USD bike rack. This must be corrected.” (Also cited in; Bonde et al. 2009)
5. Lack of financial incentives

According to Miller et al. (2008), property owners must self-finance investments for better environmental management systems and renewable energy. This capital constraint is due to the lack of financial instruments and infrastructure for banks and institutional investors to deal with investments in energy efficiency improvement. Jaffe et al. 2009 comes to the same conclusion adding that government building codes, disclosure requirements, and fiscal subsidies have been the primary instruments used to stimulate the adoption of energy-efficient technology in both the U.S. and Europe. While these instruments have achieved important successes, they also have significant limitations.

Furthermore, Jaffee and Wallace (2009), focus on the absence of energy efficiency as an input to the underwriting decision for mortgage loans on commercial property. Their conclusion is that rising and volatile energy prices can be as important as source of mortgage defaults as the standard inputs used in commercial mortgage underwriting. They argue that the main obstacle is lack of information, because banks do not currently take energy costs into account when making mortgage loans, despite the fact that these costs affect the cash flows pertaining to the buildings.

Kok et al. (2010) also comment on this matter. Explaining that lower and less volatile energy costs improve the value of these buildings, and therefore increase the lender’s financial security. With this knowledge banks should welcome energy efficient investments.

A master thesis at KTH conclude that environmental classification could be used by banks as an instrument for underwriting decision controlling the credit risk and by that increase both lending and profits. Another opportunity for banks according to the thesis is the development of new business concepts connected to the certification as environmental loans (Törsleff, 2009). Today, one of the Swedish banks (Swedbank) offer a special ”Energilån” for energy saving investments in private property, however unclear if these loans offer any extra beneficial terms. Still this is an example of an emerging market of these kinds of services.

Persson (2009) studied the environmental-classification of buildings influence on the real estate asset value. The report result concludes that there are especially two potential effects to the asset value regarding Green Building- classification. These effects are reduced operation-costs due to reduced energy-consumption and goodwill due to environment-
responsibility. The conclusion is that the reduced energy-costs stand for the main part of the real estate value effect of Green Building in Sweden. Goodwill plays only a part for those investors that only invest in environmental-marked objects, but it got no asset value effect itself.

5. 1 Market incentives and rental contracts
Another reason why the property sector has been reluctant to invest in energy efficiency is the existing incentive structure in the market (Kok et al., 2010). In their report for the European Centre for Corporate Engagement they argue that the relationship between investors, landlords and tenants should be structured in such a way that it offers both owners and users the incentives to behave in an energy efficient way. By that structure the environmental performance will be optimized. This proposal is different than what the European commercial property market looks like. Most commonly used is the net lease contracts, were the energy bill belongs directly to the user. Energy savings is then only affected by the behavior of the user, and creates an incentive for users to economize on energy costs. However, this type of lease contract provides no incentive for a building owner to invest in energy efficiency.

Several researchers, Kok et al. (2010), Davis, L. (2009), Kingsley, B (2008), have addressed the problem that when the tenants pay the energy bill, residential property investors under-invest in energy-saving appliances. Kok et al. (2010) and Davis (2009) means that the explanation lies in usage of gross lease contracts, were receiving positive net present value from investments in energy efficiency is easier. This form of lease is most common in the US commercial property market. Under this lease, the energy bill is the responsibility of the property owner. The benefits of measures reducing energy consumption in a building now flow directly to the investor, leading to an increase in the net operating cash flow. However, a gross lease does not provide any incentive for tenants to behave in an energy-efficient way. Turning off lights or shutting off the air conditioning will not lead to any monetary gains for the property’s tenants, so it is likely that daily energy consumption in a given building with a gross rental contract will be higher than would be the case if a net rental contract would be used.

According to Kok et al. (2010) possible design to resolve this issue could be a gross rental contract in which the tenant receives the utility cost savings that result from its own efficient energy consumption, while the owner receives the cost savings from his energy investments.
5.2 Green Leases in Sweden

Several researchers in Sweden among them Gran et al. (2010) and Persson, J (2009) point out that the main reason why green leases have not been that widely accepted in the Swedish market is the limitation in the measurability of the individual energy consumption premises. There is a great need for transparency and measurability for creating incentives both for property owners and tenants.

Boström et al. (2010) further argues in their study of existing premiums in green buildings in Sweden severely lacking from tenants willing to pay for a green rental contract. The main reason for this is the tenant’s lack of knowledge about the green certification prior to the contractual agreement. Location is still the main determinant for re-localization decision and because the green lease is subordinate the tenants are not willing to pay a premium when deciding to relocate. However, when the tenant were asked after the relocation, the green lease and being part of a certificated building had become much more important and also a part of the tenants CSR communication and marketing. Gran et al. (2010) conclude with these findings also adding the ”image effect” as the main factor for tenants when signing a green lease. The authors suggest, in order to promoting the market for green leases, not to put that much emphasis on the fact of lacking demand from tenants. In many cases the tenant lack knowledge about all the alternatives and may not search for the best options. By that in mind, the importance of communicating the ”green” alternatives from the real-estate sector is of great value.

In Gran et al. (2010), above mentioned article, a pattern of which tenants that are more willing to relocate to a certain property type can be viewed. In the certified green buildings we find a higher frequency of international tenants (international corporations) compared to the non-certified. This might be explained by these actors missing knowledge about the local market and that the certification serves as a guarantee and safety for some type of quality/benchmark. In the non-certified properties a higher frequency of companies in the public sector can be identified. However if this is a fact can be discussed, as previous studies mentioned in the research, have shown the opposite. One explanation might be coincidence or the limited amount of research objectives in the study.

In a previous study of commercial tenants’ environmental demands, when deciding to relocate, made by van der Schaaf et al. (2008) conclude that in their most recent relocation
had much higher demands on environmental factors than the property manager or property owner. Almost every one of the companies interviewed claim that in 5 years’ time they would require/demand energy efficient usage and indoor environment quality when renegotiating the lease contract or when relocating with another real estate company. All companies interviewed were active in the Stockholm area.
6. The importance of Social Responsibility

Another economic incentive mentioned by Bonde et al. (2010) and Eichholtz et al. (2009) is the concept of socially responsible investments (SRI) and Corporate Social Responsibility (CSR) adopted by investors in the financial markets and companies at large. Many of the large investment funds such as APG in the Netherlands and TIAA-CREF in the United States have formulated and implemented an SRI strategy, a strategy that is consistently communicated to the capital markets and to their clients. With that strategy from financial stakeholders many commercial real estate companies should be willing to implement ”green” strategies as-well.

The socially responsible investment (SRI) movement has created a flurry of new investment vehicles over the past decade, more recently green real estate funds have been put in place. The focus of this new type of fund can be new green certified buildings or redevelopments of non-energy-efficient buildings through green retrofits. For example: Credit Suisse Real Estate Fund ‘Green Property’; BNP, Paribas Real Estate ‘Next Estate’; IVG ‘Premium Green Fund’(Jenowein, F. 2010).

During recent years there have also been a debate about the real estate companies social responsibility, important is then to discuss what actually means by this since it’s a reflection on how companies act in the long term. In a report from the European Union about competitiveness they describe the relationship between competitiveness and CSR. Corporate Social Responsibility (CSR) is “a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis”(Lind et al 2011).

Separated from SRI the CSR are assumed not to increase short term profit. CSR should be interpreted as actions to increase the long term profit (Hediger 2010). By investing in the company staff, customers and the society at large the company can gain new customers, trust and the overall positive image will increase. By not doing so or using child labor, environmentally dangerous products etc., and the company can lose customers. If this results in bad press or publicity the demand for the company’s products or services might decrease. CSR could be seen as part of the company’s risk policy. It might be worth to consider putting recourses on such risk-management as they might threaten future profits.
In a report based on a global research of 700 real estate companies and asset managers, the majority of the researched companies showed no work of actively handling environmental issues. Only a few investors from Australia, Sweden and Great Britain came close to the top spots in the global "Environmental Real Estate Index". The study was made by Nils Kok at Maastricht University in Holland upon request from three European investment institutions: APG, PGGM and the Universities Superannuation Scheme. Despite measures for energy saving investments the research conclude that many companies are unable to account for its energy/water consumption or its carbon oxide waste. The research has resulted in a new sustainability norm, ERE Index, were institutional investors can compare its real estate investments. The ambition is that this will work as a catalyst for environmental engagement within the real estate sector (Lindbäck 2011).

In a recent Swedish study investigating the relationships of the commercial rental property market Lindqvist et al. (2010) found during interviews that tenants had become more aware in their choice of property managers. The study showed a transition from only evaluating the local real estate manager towards looking at the real estate company at corporate level. This means not only that the traditional real estate company should focus on a clear customer orientation but their real estate managers should evolve into a more relationship building role. More tenants consult others to gain more knowledge about international real estate companies and how these work before committing to a lease contract. This because several of them have perceived these companies and their external real estate managers as less cooperative and customer oriented compared to traditional real estate companies.
6.1 A European perspective on successful real estate companies

As previously mentioned in the first chapter, green buildings potential to increase the return of equity have also been evaluated by the American investment bank JP Morgan in 2008. The research was based on 32 European companies either with or without green buildings. The report conclude that five British companies hold the top spots regarding long term environmental goals combined with higher return on equity than its competitors without these environmental goals. The leading companies in Europe had on average 22% better return of equity than its competitors. However, there were some differences to acknowledge between the European countries, as British companies has much stricter environmental legal system then the other European countries. When JP Morgan evaluated these 32 companies they did it regards to three different inputs. (The following section has been retrieved and remodeled from Bonde et al. 2009)

• Transparency and Accounting
Examined whether or not the company displayed any environmental policy or reported how they worked with environmental questions, in their own report or as an integrated part of their quarterly report.

• Implementation of environmental initiatives
Based on the company’s reports examined how well the companies had tried to implement the communicated environmental goals in their company portfolio. Example, energy efficiency.

• Sustainability targets
This category included the companies expected final date were eventual environmental goals should be fulfilled.

The companies sustained a score between 0-5, were 5 were the best. From a general point of view British companies placed them at the top, with average score 4,11, in comparison with other European companies with an average score at 1,58. Throughout the research British companies had better accounting then its European counterparts. JP Morgan claim this has to do with better company management.

The report also includes a summary of the different countries environmental work, foremost focusing on environmental legislation and their commitment to the Kyoto agreement. Based
on a research from the Danish university of Aalborg, the analysis displays Great Britain, Germany and the Netherlands as those who have the most developed systems in this field. They also noticed that Sweden, Spain and Turkey had the lowest scores in this field.

Examples of key-stakeholders to promote the development of a more sustainable real estate market were also identified in the report.

• Governments
Environmental responsibility for the private sector will be much tougher in the future, because of higher sustainability targets will be set up. Furthermore, other sustainability aspects such as availability will be important in the future. Companies prioritizing such will probably be favored when applying for construction plans.

• Investors
There is an indication based on previous research that green buildings could have a higher market value, which could create a divided market at short sight. The green buildings would become more attractive than conventional buildings as the conventional buildings economical lifespan would become shortened.

• Tenants
Demand from tenants renting green leases may occur strictly out of financial reasons, as they themselves has a more efficient way of energy usage. This means less risk for the tenant as todays constant movement of energy-prices will make a smaller impact of their maintenance costs, if they pay these separately in a green lease.

Besides the financial reasons the report also suggests that the companies growing CSR-policies may affect the choice of rental space as this has become a way for the companies to express their responsibility for a sustainable future. It may also give them a competitive advantage in recruiting new employees and in employment retention.
7. Connection to real estate intervention process and organizational performance

Corporate occupiers are among the important interest groups in the real estate business. The whole value network in the real estate sector, consisting of, e.g. developers, investors, and service providers depend on the occupier organizations and meeting their needs and preferences (Niemi, J. Lindholm, A-J 2010). With that in mind the connection to green buildings and real estate interventions should be the property value network first outlook when attracting new tenants. As mentioned before surveys made at international level support the idea of a green alternative demand from tenants (Nelson, A. J., 2008).

To understand and monitor the effects of real estate interventions the responsible corporate real estate manager (CRM) need to have a clear conceptual framework and standardized key performance indicators (KPIs). With this outlook tenants/companies can view real estate as a fifth resource of performance improvement (de Vries et al., 2008). Moreover, de Vries et al. (2008), research paper have shown that real estate interventions actually improve organizational performance. They researched tenants in higher education in the Netherlands, although there is no evidence that this is true for the commercial market. The main problem with this method is that every company has their unique determinants for success and it might be hard to meet every customers/tenants demand. Hands on measures, for commercial property, should be taking the discussion with new tenants or existing with new negotiations of contracts.

With a clear conceptual framework and standardized KPIs the potential connections between green buildings and overall organizational success, might be in the reach of grasp to the commercial property industry. According to Heerwagen (2000) case studies as well as theoretical considerations suggest multiple links. They have, in order to identify performance impacts, considered what constitutes high performance at organizational level and suggested factors to be measured as KPIs:

- Product quality
- Customer satisfaction
- Capacity for innovation
· Quality of work life (including employee work attitudes and job satisfaction)
· Employee retention
· Perceived value of goods and services
· Operational efficiency
· Social responsibility

According to the author this list can be divided into strategies that primarily "reduce costs" or that primarily "add value" for the tenant company. However, when it comes to facility decisions for most companies, costs are almost always the predominant consideration. This primarily because the ease of documenting cost reductions compared with the difficulty of documenting benefits and value. Furthermore, productivity benefits or other organizational outcomes may not be immediately apparent whereas cost reductions are (Heerwagen 2000). This is a dilemma that both real estate companies and tenants, should be aware of when deciding or pitching the lease contract.

The importance of having simple yet right KPIs is further supported by Jordan et al. (2009) and their research about; good performance measurement systems create a direct line of sight between Corporate Real Estate (CRE) goals and stakeholder interests. Leading indicators allow managers and teams to take improvement action before customers become dissatisfied. For example, a rolling estimate of the net present value of facilities maintenance cost, taking into account all known factors that will impact future cost, might be a more useful planning measure than simply last month’s charge.
Moreover the authors show the importance of a common error to become preoccupied by a scorecard and lose focus on execution. They mean that scorecards and KPIs are only valid to the extent that they drive performance: revealing trends and prompting corrections to processes and execution.

Common contract negotiations in Sweden are often based on the premises of sharing real estate intervention costs, according to one of the interviewed companies in this study. This in order to increase the competitive advantage, profitability and productivity in a positive way. de Vries et al. (2008) pointed out that real estate interventions are to be tailor-made to suit organizations, their objectives and the people concerned. The function of real estate is
expected to receive more consideration in the future, as well as its impact on costs, benefits and side-effects and, as such, on the continuity of organizations. This is previously supported by Heerwagen (2000) and her list of evidence of sustainable design and operations. This associated with increased resource efficiency and pollution prevention can have great impacts on an organization. Those include:

- Reduced legal and insurance costs associated with reduced risks to current and future generations
- Reduced regulatory inspection load
- Enhanced community live-ability
- Enhanced relationships with stakeholders
- Process innovation associated with the quest for resource efficiency
- Improved ability to market to pro-environmental consumers
- Reduced operating costs

Furthermore both Kats (2003) and Heerwagen (2000) conclude that these strategic benefits are likely to be linked to such green building factors and environmental benefits such as:

- Reduced use of resources, especially water and energy
- Use of recycled materials in building construction and an in-house recycling program once the building is occupied
- Commissioning to assure the building operates as intended
- Re-commissioning following changes in building use
- Use of renewable resources, such as solar power and wind
- Pollution prevention and waste reduction

These findings combined strengthen the importance of building green now and in the future. It also shows how important the right mind set is, for the commercial real estate companies, when planning for real estate interventions for new or old tenants.
8. Interview summary

8.1 What factors determines the choice for choosing LEED, BREEM, EU Green Building etc. certifications?

The choice of which certification system to use seemed to be driven by what the tenants or government polices determines for the project. Supporting the research mentioned by Jaffe (2009) that government building codes, disclosure requirements, and fiscal subsidies have been the primary instruments used to stimulate the adoption of energy-efficient technology. Two of the interviewed companies had a clear green framework for which they intended to use in new investments. But also adding that, this may change during the initial stages of the project, because of demands of the situation. Most commonly were the EU Green Building certification, a reason given to such choice was; it’s the least workload of regulations. LEED or BREEM are most suitable for attracting international tenants for bigger projects in prime locations.

As expected most of the managements did know very little of each of the certifications meaning or pros/cons. Mostly effecting their decision was information gathered at seminars, conducted by some branch organization, or talked about among colleges with passion for the environment. Each of the companies mentioned that the driving force behind their decisions came from someone in the organization, specialist or not, with a passion for the environment. No one mentioned that the financial partners or banks had anything to do with it. One respondent mentioned that external project consultants responsible for the construction coordination had influence on their decision.

Another reason is the willingness to be in the fore front of the corporate development. This choice is driven by two reasons, by being one step further then your competition you might avoid future costs but also the moral responsibility of being a market leader in this field. This discussion will be further answered under the CSR heading.
8.2 Did the financial partner influence your choice?

Only one company of the interviewed had a partner affecting the decision on what combination of certification the new project should have. This specific partner was not a bank or creditor. However, several of them have been discussing to bring up these kinds of "green" issues when negotiating new loan agreements. That rising and volatile energy prices can be as important as source of mortgage defaults as the standard inputs used in commercial mortgage underwriting. The main obstacle is lack of information previously mentioned, because banks do not currently take energy costs into account, despite the fact that these costs affect the cash flows to the buildings. This indicates how important real estate companies must display this kind of relevant energy information.

8.3 In the credit process, is there any underlying framework for green investments? Are risks being calculated differently, by you or the creditor?

As the credit arrangement seem to differ between the companies a green influence from the credit holders are not to be expected. Two of the companies interviewed said that their credit situation does not incorporate these types of specific situations when investing in "green" projects. Meaning they have a credit of X SEK negotiated to a specific interest rate and, as one of them said "the creditor does not care of what they do with it". So upon the question of whether the creditor has any input on how the risk is calculated on a specific project the answer is NO. However, insurance premiums are lower on these projects and, mentioned by two of the companies, lower interest rates for specific energy improvement investments in properties or subsidiaries of the company.

The companies own risk measurements however are definitely being calculated with an overall lower risk on new projects with energy efficient solutions or certified as "green building" of some type. They did not mention if they saw any specific building certification as less risky than the other. One other reason for the indifference of risk was that 3 of 4 companies had never started a new project without a tenant or an underlying demand of the project. The risk would in that case, without a client, be much more of concern. The company admitted to have started a project without an existing tenant, mentioned that there analysis found the specific location and the situation in the current market valid to begin construction at this point of time without any signed contracts. They admitted the higher risk where counteracted by the strategic location and that the plan was to build a “flexible space” in order for tenant adjustment when signing contracts.
The question regarding a framework for green investments in the credit-process might also be too early to be answered at this point of time. Taking into account how few projects are actually brand new buildings produced of these real estate companies. The companies manly focus on acquisition and refinement of existing buildings. That might also explain why the EU Green Building certification is so popular among the respondents.

8.4 Is there always an environmental focus for new investments/acquisitions?

In new investments the companies’ environmental responsibility has become more important than only looking at energy consumption and improvement potential. In the investment process the buildings energy consumption and environmental risks are being analyzed by in-house expertise or outsourced by some consultant firm to judge its value. Environmental inventory is also mentioned to be more important not only when acquiring new properties but also in the companies portfolios of existing properties. The inventory objective is to uncover any environmental risks and to gather all necessary information of the properties.

Three out of four interviewed have some kind of plan/scheme for structuring new building projects or reconstruction of old properties. EU Green Building is mentioned as a minimum demand and more specific programs for material, waste-disposal and building methods are also being incorporated. The goal for the building process is to be aligned with the companies’ environmental policies.

One of the companies mentioned that they also conducted special demolition plans when reconstructing or renovating. This is co-managed by the building- and waste entrepreneurs. When starting new projects or rebuilding existing properties, all of the interviewed companies, mentioned that choosing sustainable material had become more important looking back at a 3-5 year period.

One of the companies has several concept buildings based on supposed demand from tenants. These buildings have been developed in order to be flexible and environmental and cost efficient. The initial certification is EU Green Building but can easily be upgraded with other certifications if the tenants demand such.
8.5 In the actual case: Is a “green rental premium” calculated in the process? How are the USP-Unique Selling Points communicated?

In order for the built environment and the real estate sector to become sustainable and more environmental friendly there must be some economic incentives to push the development forward. As the construction prices for “green investments” might increase compared to a normal buildings, the cost increase must be compensated by future returns. Moreover, the project’s environmental values must be simple to communicate to other stakeholders in the market, in-order to account for a “green rental premium”. This situation has been leading up to a slower market, where the breakthrough of “green buildings” environmental benefits has not become as great as the market has hoped for Myers et al. (2007). In the “green buildings” literature this phenomenon has been referred to as ”The circle of Blame” theory, where the actors of the real-estate market blame each other. The construction companies say they are willing to build these “green buildings” but these are not demanded from the real estate developers. The real estate developer says “we would like to order them but no real estate investor will pay for the extra amount of investments in these buildings”. The real estate investors claim they would like to invest in these types of projects but there is no demand from tenants to want such. The tenants says that they would like to rent these types of ”green” premises but claim there is such small selection to choose from.

Figure 1. “The vicious circle of blame” (modeled by Cadman 2000 cited in Lindqvist et al. 2010).
The interviewed companies’ responses were similar. They do not actually account for a special “green premium” when analyzing the project at the start. As mentioned before, the overall response to were green premiums could be attained, were believed to be in bigger projects with large companies as tenants, at AAA locations. Some mentioned that the premium in itself is the new building and location, ”what part of this premium is said to be ”green” is hard to determine”. They always try to communicate the green features of the building to the prospecting tenants but they claim not too have seen this to be crucial for the choice of the tenants. However, when management representatives were asked to describe if they had any “Unique Selling Points” UPS such as Product quality, Customer satisfaction, Employee retention, Social Responsibility etc. they all had some difficult time at the moment of actually defining such. One of them said “I must admit, I have a really hard time believing we will attract new tenants based on good indoor environment”. When interviewing one of the companies’ environmental coordinators, he expressed a somewhat frustrating situation, meaning there were some informational barriers between him and the company management and the real estate managers at the local offices. But he was optimistic that this was because of the initial phase of ”green building” really entering the whole company mind set. He said
"Looking back two years, a lot have changed. Everyone takes this sustainable development more seriously and have a more open mind set to it".

Maybe this lack of knowledge will be different in the future as customers and real estate managers become more aware and as CSR are becoming more important. However, from the interviews one can conclude that there might become a divided market where we will see more certified buildings in prime locations in cities mostly for offices and less of them in suburban areas where industry, logistic companies etc. might locate.

8.6 Examples of green building projects: Has the economic analysis incorporated other “soft” values such as CSR etc.?

No one has really formulated a model to physically account for these types of factors when investing in new projects or in green buildings. However, all of them agree that this has become much more important. One of them summarize the ongoing situation like this: “Customers and other interested parties has become more aware and many of them are willing to look at sustainable alternatives. The green development during recent years has driven the fact that commercial real estate has incorporated these options. As a real estate company “green” premises has become a "must have” in order to increase its competitive advantage in a more environmental conscious market.

8.7 In what way has the corporate social responsibility influenced your decisions to invest, communication to stakeholders?

The corporate social responsibility does not appear to have become more important based on the interviewers’ response. But it has definitely changed to incorporate a more green focus. 3 out 4 respondents have kind of the same explanation that communicating and acting in social responsibility has always been a part of their marketing and policy as a company. To be a part of the society in their local market has always been important. For example sponsorship to the local Football club or local art exhibition. The green focus has gained more attraction since 2007-2008 for most of the companies. Two of the companies also said that during the last 1,5 years it has become an even greater focus, by electing environmental spokes persons, develop the information displayed on their homepage or in annual/quarterly reports about environmental issues concerning the company.
The driving forces behind these decisions seem to be two. First, to have a building with some classification has a value in its self as it promotes the image effect of the company, supporting previous research made by Johan Persson (2009). However, this will only be an advantage for as long as it is relatively few companies with classifications in the market. This has also been mentioned in previous research made by Malmqvist et al. (2009) in their paper about the driving forces behind energy efficient investments. When classification of green buildings will become more common the advantage will disappear.

Secondly, the lower insurance premiums mentioned earlier by doing energy efficient investments as the insurance companies value these properties to have lower risks. The interviewed companies see an opportunity in communicating their work for a sustainable future in their marketing towards current/future tenants and other stakeholders. But the marketing also directs to potential new owners, vicarious and competitors as a form of benchmarking. ”No one wants to own, manage or be associated with bad properties”. As this research was made during the period Jan 2011-june 2011, a major change was noticed in the environmental information given by 2 of 4 companies at their home page.
9. Analysis

9.1 The choice of choosing right

Previously mentioned in chapter 1 is that energy represents a significant part (about 30 percent) of operating expenses in the typical office building. This expense is the single largest and most manageable item in the provision of office space (Kats 2003). Furthermore, rising energy costs that we have seen during the last few years increase the importance of this issue for profitability of investment in real estate. In a report from the European Union in February 2011, Sweden and Ireland has the highest increase in the price of electricity since 1999 compared to the rest of Europe. During 10 years the energy prices has increased by 80%, the real estate companies are fighting historically high levels of energy prices and many might wonder how long this will go on and what investments they should do in order to stay profitable. One might ask oneself if a technological breakthrough in the energy sector (such as the recent claimed discovery of cold fusion by two Italian researchers) if the investments made today will be somewhat useless in the future?

The management of the real estate companies does acknowledge this during the interviews and seem to be cautious about the future and the investments. This might also be a reason for the popularity of the EU Green Building alternative for certification, were only energy savings measurements matter. The critique pointed out by Audrien Schendler and Randy Udall about the certification (LEED) has to be valid for the Swedish market according to the interviewed respondents. Many are concerned about the regulation workload and international systems such as BREEM and LEED might not be the dominating systems in Sweden in the future. Adding that the managers of the Swedish real estate companies have 37 different certifications/classifications to choose from. I personally believe that with the Swedish Green Building Council development of the “Miljöbyggnad” certification, and with a smooth certification process for both the developers and the real estate companies, we might see this certification winning market shares when it becomes more established.

The choice of which certification system to use seemed to be driven by someone in the organization, specialist or not, with a passion for the environment. Furthermore, what the tenants or government polices determines for the project. Supporting the research mentioned by Jaffe (2009) that government building codes, disclosure requirements, and fiscal subsidies
have been the primary instruments used to stimulate the adoption of energy-efficient technology.

The real estate companies have noted the importance of turning environmental risks into opportunities, as energy efficient investments in buildings have positive net present values. They also support in their beliefs of the future, what previous researchers from other countries have shown (Piet et al. (2010), Eichholtz, Kok, & Quigley(2009), that rents of energy efficient buildings can be higher than conventional buildings, occupancy is perceived to be higher and less volatile, and future transaction values are expected to be higher. However, this will only be the case as long as there is a "additional premium” for constructing green buildings according to microeconomic theory. In the future the increased supply might push down rent levels of green buildings. Bonde et al (2009) made a theoretical analysis of the development for green buildings at long and short sight. They concluded that there only might be a temporary "green premium” indicating a higher rent level for green buildings compared to conventional buildings. The long-term rent level, on a competitive market, will be determined of the total yearly cost for the building. If this is lower for green buildings no other type of building will be constructed and rent levels for all other buildings will decrease to its level. Otherwise a rental difference will remain equal to the yearly differences between green and conventional buildings.

9.2 Financial influence

The influences from a financial partner concerning green buildings are still not present in this research either (see Miller et al. 2008). As well as previous research made by Bjarne Törsleff (2009) examined the credit process by Swedish banks regarding green buildings found that no information similar to an environmental classification system are considered or delivered to them automatically. It is only when external consultants or internal appraisers, who evaluate eventual environmental aspects in the credit proposition, are demanded. However, situations when such intervene in a credit decision happen very seldom, according to the interviews in the research. Maybe we are looking at a transition period towards energy efficiency as an input to the underwriting decision for mortgage loans on commercial property. Since it has become more important, both the real estate and the financial sector, to incorporate more CSR related tools in order to meet stakeholders’ demands. Several researchers has shed light on this issue focusing on the lack of financial incentives Törsleff (2009), Jaffee and Wallace (2009), Johan Persson (2009).
9. 3 Lack of knowledge
There seem to be a knowledge gap in the management concerning green buildings and what they comprehend and has to offer for the real estate company. As in this research the management had very little understanding about what the different certification systems advantage/disadvantage was and also how to communicate the UPS for taking out a green rental premium. The real estate sector seems to be under a knowledge exchange towards educating both themselves and the tenants about the impact of green building. Like many other metrics that have now become essential management tools for sophisticated organizations (financial ratios, human resource statistics, business planning documents), climate change impacts, on and by real estate, may one day become an essential management tool. Companies that start to put in place climate change-related expertise and policies early will create a differentiating competitive advantage being better armed to provide climate change-related services and transparency to their stakeholders, also mentioned by Jenowien et al. (2010) and acknowledged by Bonde et al (2009), JP Morgan (2008).

9. 4 Green leases and the connection to real estate interventions
One thing that came up during the interviews was “What is the definition of a green rental contract?” Is it only that the energy bill belongs to the tenant or has the building in itself be certified or used in a special way? Some critique was pointed out by one of the interviewed companies saying that, “If a green lease is defined by the energy bill belonging to the user and that waste material are being handled by the tenant themselves. Then we have been offering green leases for more than 5 years”. This is yet another proof of how commercial real estate companies lack the ability to communicate the UPS of their leases to its customers. I believe there is great potential in educating the customer of the benefits of the regarded premises there considering. Looking at the research made by Jordan et al. (2009) about simple KPIs and de Vries et al. (2008) research of real estate interventions, it must be hard for any tenant to say NO to the listed objectives. As these lists of UPS can be divided into strategies that primarily “reduce costs” or that primarily “add value” for the tenant company. However, when it comes to facility decisions for most companies, costs are almost always the predominant consideration. This primarily because the ease of documenting cost reductions compared with the difficulty of documenting benefits and value. Furthermore, productivity benefits or other organizational outcomes may not be immediately apparent whereas cost
reductions are (Heerwagen 2000). This is an opportunity that real estate companies should be aware of when deciding or pitching the lease contract in order to sell ”green buildings”. The circle of blame theory described earlier, support the fact of the importance of educating the tenant community. Boström et al. (2010) further support this as the main reason for low demand for green leases is the tenant’s lack of knowledge about the green benefits prior to the contractual agreement. Location is still the main determinant for re-localization decision. However, when the tenant were asked after the relocation, the green lease and being part of a certificated building had become much more important and also a part of the tenants CSR communication and marketing. Gran et al. (2010) conclude with these findings also adding the ”image effect” as the main factor for tenants when signing a green lease. The authors suggest, in order to promoting the market for green leases, not to put that much emphasis on the fact of lacking demand from tenants. In many cases the tenant lack knowledge about all the alternatives and may not search for the best options. By that in mind, the importance of communicating the “green” alternatives from the real-estate sector is of great value.

9.5 Corporate Social Responsibility influencing decisions to invest
As stated in the interviews no one has really formulated a model to physically account for CSR type of factors when investing in new projects or in green buildings. However, all of them agree that this has become much more important. Besides the financial reasons the interview summary conclude, the companies growing CSR-policies may affect the choice of rental space as this has become a way for the companies to express their responsibility for a sustainable future. It may also give them a competitive advantage in recruiting new employees and in employment retention (see JP Morgan (2008) and Jenowien et al. (2010). Furthermore, the tenants have become more aware in their choice of property managers. These results confirm Lindqvist et al. (2010) study, were a transition from only evaluating the local real estate manager towards looking at the real estate company at corporate level is more important today. This means not only that the traditional real estate company should focus on a clear customer orientation but their real estate managers should evolve into a more relationship building role. More tenants consult others (primarily tenant representation) to gain more knowledge about real estate companies and how these work before committing to a lease contract.
However, during one of the informal interviews a CEO of one of the companies said regarding to the growing CSR movement, not only in the commercial real estate sector but, around the world. “The whole CSR and the focus of green buildings have become a necessary evil”. He further explained that he would much rather focus on acquisition and refinement of existing buildings than to create soft values for some financial stakeholder or the media. And he is somewhat right, energy efficiency, the “green” impacts and the ability to communicate such will probably become even more important in the future. However, this can never be offset by the fact that location, location, location matter the most in this industry combined with the supply of flexible rental spaces.
10. Concluding remarks

Energy efficient and “green” buildings appear to be the future for Swedish real estate companies as it is in the rest of the world. That there is great potential in the environmental benefits in this area is obvious and theories from the research society on how to make them profitable for the real estate companies are many. However, it is still unclear which path to choose, in order to make theories become realities.

This thesis has concluded that the management of real estate companies is preceding the development of green buildings with caution. There are still knowledge barriers between management and actual real estate manager or rental department on how to communicate the “green” benefits for the buildings and the leases. This has basically to do with the large amount of different certifications and classifications in which the transparency is low. There is also hard for the real estate companies to account and communicate the USP of the “green” premium in a lease. It’s my firm belief that companies who start to put in place climate change-related strategies and policies early will create a differentiating competitive advantage being better armed to provide climate change-related services and transparency to their stakeholders. Besides this, there is a lack of incentives for building green at much higher pace. Government policies and financial incentives on credit arrangements are seen as to become more important for a positive development of conventional buildings into “green buildings”. It is in the transformation of the conventional buildings the greatest environmental effects will take place.

The ever growing importance of Corporate Social Responsibility might also become one of the driving factors for the development of more green buildings in Sweden. This study confirms both previous domestic and international studies that real estate companies must focus on these soft values in order to attract and keep their customers. However, with little transparency it is easy for real estate companies to hide behind relatively few CSR measures.

One suggestion is to incorporate a ”Environmental Real Estate Index” as they have done in Holland. Making it much easier for both tenants and other stakeholder to evaluate the real estate companies.
Suggestions on further research within this field:

To examine if a Swedish ”Environmental Real Estate Index” or some other benchmark has any demand, and who to manage it. Sweden Green Building Council, Energimyndigheten etc.?

Evaluate different management strategies for communication of ”green” leases. Comparison and evaluations could be drawn from other sectors, not only real estate sector.
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Appendix
Intervjufrågor.

1. Vilka var faktorerna att välja EU green building/LEED/BREEM etc. för nya investeringar?
Hade den/ de finansiella samarbetspartners någon inverkan på det beslutet?
1. I kreditgivnings processen, finns det något ramverk för gröna investeringar?
Upplever du risken bedöms olika beroende på olika projekt.
Bedöms era egna risker på något annat sätt i investeringar av gröna fastigheter?

2. Gällande nya investeringar/förvärv:
Finns miljöfokus alltid med i beräkningen för nya investeringar/förvärv?
Eller bara vid viss typ av objekt? I så fall vilka?
Har det förändrats jämfört med tidigare år?

I det aktuella fallet: Finns det en ”grön hyrespremie” med i beräkningarna?
I så fall: Hur kommuniceras denna? USP-Unique selling points?

Exempel på projekt för ”green building”: Har den ekonomiska kalylen tagit fasta på andra mjuka faktorer så som CSR etc.? Lönsamhet i ett ”större” perspektiv.

3. På vilket sätt upplever du/ni att CSR-socialt ansvar blivit mer viktigt?
Har det blivit viktigare att kommunicera CSR relaterade nyheter till övriga ”stakeholders” i delårs rapporter, bokslut förändrats?
I så fall på vilket sätt?