

THE HIGH PERFORMANCE PORTFOLIO:

MAKING THE MOST OF PROPERTY MANAGEMENT AGREEMENTS



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SUMMARY

Property management agreements create the framework for “who does what, when, where, and for how much” in the relationship between the building owner and property manager. They define what is expected of both owner and property manager relating to the financial, operational and environmental aspects of day-to-day management of a building, as well as the terms of the fiscal relationship between both parties. More and more, energy efficiency is integrally linked to asset value and marketability, and the property management team is key to achieving energy goals. Outlining clear energy management guidelines and expectations in the property management agreement will set the tone for building, management team, and occupant standards that align with high performance building principles and produce measurable performance returns.

IN DEPTH

Whether the relationship is conceived through a property sale, a purchase, or a bid process, the property management agreement is important in defining priorities and accountabilities for the property manager’s support of the owner’s financial and investment objectives. Sustainability can be a key component.

SETTING THE STAGE

By introducing energy management principles at the very beginning of the relationship between the owner and property manager, the property manager is fully aware of the owner’s expectations. This often starts with the Request for Proposal (“RFP”) when the owner is seeking to engage a new property management firm.

There are several ways that the RFP can be used to as an effective tool to communicate the owner’s expectations. At a minimum, the RFP should include the owner’s sustainability policy and corporate sustainability commitments, as well as the owner’s expectations for reporting of energy efficiency efforts. Give extra consideration to companies that are able to demonstrate their own commitment to energy efficient practices in their RFP response. This might include:

- A statement of their energy management policy, initiatives and goals
- An outline of their training programs on high performance operations



- The ratio of buildings in their portfolio that are ENERGY STAR labeled or LEED certified
- Energy efficiency awards or other industry-recognized achievements that they have earned

DEFINING EXPECTATIONS

The sections of property management agreements that outline performance requirements are typically broken down into the following components:

- Building Operations
- Tenant Relations
- Reporting
- Leasing
- Construction Management
- Personnel

Because each of these components can have an impact on energy efficiency, include items in each of these sections of your property management agreements to help define and monitor sustainability goals. The suggestions that follow should be weighed for applicability to your specific situation, based on building type, size, and investment strategy.

BUILDING OPERATIONS

Traditionally, building owners and property managers have given operational priority to equipment reliability and tenant comfort. Rising energy costs and the availability of building diagnostic and monitoring equipment and techniques mean that reducing energy use makes good business sense and can be achieved without sacrificing these other priorities. This is where the property management team can have the most significant impact.

Include general language that reflects a commitment to the energy management strategy, such as requiring that the property manager:

- Operate the building in a manner that maximizes energy efficiency while maintaining tenant comfort
- Employ strategies that adhere to the owner's stated energy management objectives
- Strive to balance the owner's goals for sustainability with cost effectiveness, considering the energy impact of all proposed expenditures
- Develop an energy policy specifically for the building, including goals and objectives consistent with the owner's
- Engage vendors, contractors and staff in implementing the energy strategy

Optimized day-to-day operations and maintenance procedures are the backbone of a successful energy management plan. To ensure that the property management team is focused on effective procedures that support energy goals, the property management agreement could require that the property manager:

- Conduct energy efficiency audits and inspections on a periodic basis
- Ensure building engineers are trained and able to effectively operate and monitor the Energy Management System (EMS)

Encourage the property manager to recommend any sound capital investment that advances the energy management strategy. The capital expenditure recommendation should include a well-rounded financial analysis that takes into consideration:

- Payback period
- The impact of the various lease types in recovering expenses or sharing cost savings
- A calculation of the financial benefits to the owner as well as the tenants
- Utility incentives researched and available to offset costs

Even if a project is not directly related to energy efficiency, capital expenditure recommendations should address any potential impact on energy consumption.

ENERGY STAR is an effective program for benchmarking and monitoring the effectiveness of energy efficiency improvements. But many property managers do not voluntarily pursue and maintain an ENERGY STAR rating. Consider requiring that the property manager:

- Take steps to have the building benchmarked in ENERGY STAR's Portfolio Manager tool no later than one year after management takeover
- Periodically report the ENERGY STAR rating to the owner, along with recommendations for how to improve the rating
- When taking over management from another company, make every effort to obtain ENERGY STAR data from the departing management firm, if the building is already benchmarked
- If being replaced by another management firm, cooperate with the new company in the transfer of ENERGY STAR data

While the property manager is ultimately responsible for the operational performance of the building, contracted vendors play an important role because they often account for much of the work that is completed. It is important that these vendors are aware of and involved in the implementation of the energy management strategy. Through the property management agreement, you might require that the property manager:



- Strive to contract for services that enhance the building's energy efficiency program
- Include in all contracts for services and projects - that the vendor:
 - o Adhere to the owner's energy efficiency requirements
 - o Notify the property manager of obvious, recurring inefficient tenant energy practices (e.g., computers and lights left on after hours) that they see while working in the building

TENANT RELATIONS

Ensuring that the manager is working with and educating the building tenants related to energy efficiency is also a critical component in sustainability. In your property management agreement, you might consider requiring that the property manager:

- Implement a proactive, ongoing tenant engagement program related to energy efficiency and sustainability practices for their space
- Encourage tenants to select ENERGY STAR qualified office equipment and appliances through the tenant education program, as well as within leasing and construction management documents
- Continually pursue avenues to incentivize and encourage tenant energy efficient practices

REPORTING

In order to monitor compliance with the owner's energy management strategy, it will be imperative for the property manager to periodically report to the owner on their efforts and achievements, such as:

- Ongoing efforts and results of energy-related tenant relations programs
- Tracking and trending of building energy usage
- Synopsis of energy saving measures and activities
- Notable market/industry trends in energy efficiency (programs or technology at competitive buildings, etc.)
- Whether or not any buildings in their competitive set are currently seeking ENERGY STAR labels or LEED certifications
- Energy efficiency training that the building staff has received

LEASING

Many owners have a separate agreement for marketing and leasing (sometimes with the property manager's firm and sometimes not), while others include it in their property management agreement. However the leasing function is handled, the property management team likely still has some involvement or can have an impact on the leasing strategy. Require that the property management and/or leasing teams:

- Be conversant in marketing the building's energy strategies
- Promote and support lease language relating to energy efficiency goals
- Proactively communicate to the owner any requests trends and expectations relating to energy efficient buildings that could affect marketing strategies

CONSTRUCTION MANAGEMENT

If the property management team is responsible for managing tenant improvements and capital projects for the building, include in the property management agreement requirements that:

- Construction documents and vendor contracts require vendors to adhere to the owner's energy efficiency requirements
- Building standards for tenant improvements and alterations consider materials and systems that improve energy efficiency where practical
- The property manager strives for a balance between sustainable design and cost
- Scopes of Work consider energy saving opportunities such as lighting retrofits, adding motion sensors, etc.
- The tenant's design does not degrade building energy efficiency — for example, inefficient lighting, excessive appliances in kitchens, or HVAC systems that are not integrated with the EMS

PERSONNEL

Having a knowledgeable property management team with the skills necessary to implement energy efficiency practices is critical to the success of any sustainability effort. To ensure that the staff assigned to the building is capable of implementing the energy strategy, require that the property management team:

- Knows how to identify energy efficiency opportunities, prioritize them and recommend them through a thorough business case to the owner
- Receive periodic and ongoing training related to energy efficiency — training should be appropriate to job responsibility and ensure continual improvement of knowledge of trends, equipment, capabilities and technology

THE PROPERTY MANAGER'S PERSPECTIVE

Including energy efficiency in a property management agreement is a relatively new concept. Some suggested requirements could entail more effort by the property manager than is anticipated in a typical property management agreement. The property manager may also incur additional costs

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in order to achieve these objectives. The property management agreement should state what the owner will pay for and what is considered the property manager's financial responsibility (for example, additional training that might be required).

The property manager is already motivated to partner with the owner in achieving energy efficiency in the hopes of continuing their business relationship. In the spirit of aligning in partnership with your property manager, and to motivate them to dedicate adequate time to this effort, consider offering additional incentives for performance that produces results against stated metrics such as lower energy costs or an improved ENERGY STAR rating.

Incentives can take many forms, such as:

- A bonus payment, based on meeting certain energy performance goals
- A sharing of savings in energy costs (be aware, however, that this type of incentive has inherent challenges, as it can be difficult to quantify without very clearly-defined, mutually agreeable measurement criteria)
- Recognition such as awards at industry events, press releases about individuals and/or companies, mentions in national newsletters, etc.

THE BOTTOM LINE:

- Seek property managers that have a demonstrated commitment to energy efficient practices who will partner with you to achieve a high performance building.
- The outset of the relationship is the time to define expectations and accountability for sustainability and energy efficiency. The property management agreement can be an effective vehicle to achieve this.
- Clearly defined expectations will result in increased returns for the owner. It is reasonable for your property manager to actively participate in the process.
- Working together, the owner and property manager can elevate a building's operating standards and marketability through application and enforcement of high performance practices.



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