

What Evolving Water Concerns Mean for CRE

As pressure mounts for greater efficiency, this is what owners and tenants can do to meet the evolving standards.

By Neal Perkey

In May, the California Water Resources Control Board passed a measure requiring agencies to implement contingency plans for up to a 20% shortage in water supplies. The move caught the attention of property owners across the US, especially in regions where droughts are prompting calls for more stringent water conservation. Meanwhile, water usage costs are rising, projecting to double or even triple in many areas over the next decade.

Forecasts for water usage can alter real estate planning. For example, developers in Phoenix, hoping to make the area the next data center mecca, faced pushback against these large projects.

As water conservation takes a more prominent role in commercial real estate discussions, the industry could see larger investments in water efficiency and changes to leasing in the face of stricter environmental, social and governance (ESG) goals, regulatory requirements and tenant expectations.

An Environment Ripe for Innovation

Adding water-saving measures to commercial properties is especially appealing for assets greater than 500,000 square feet in downtown or core areas, where water usage is already substantial. By reducing consumption and utilizing alternative water sources, properties become less vulnerable to fluctuations in water supply and pricing and secure a competitive advantage when it comes to attracting and retaining tenants.

For office, the three biggest uses of water are HVAC, restrooms and irrigation. For data centers, life science buildings and manufacturing, process water and steam dominate water usage. Basic water-saving mechanisms, such as leak detection, pipe insulation and low-flow fixtures, can be cost-effective and promise a sizable payback depending on the building and the scale of the installation.

In recent years, proptech has fueled adoption of Internet of Things (IoT) solutions – both for new construction and for value-add improvements. Connected devices such as smart faucets and flushometers can provide component status alerts, performance data and timing controls. Notably, these insights can also inform future water efficiency investments, and may insulate properties from higher water costs, strains on supply and increased water use regulations.

Installing a rainwater collection pond can save thousands of dollars annually. Retention ponds can

provide water to supplement cooling towers, for irrigation or other non-potable uses, and may cost less than water storage tanks. Reclaimed water helps to offset the use of utility-supplied water, saving dollars on both consumption and discharge.

Enhancing operational processes, such as upgrading steam sterilizers, can save costs long-term and open properties for a utility grant. Large healthcare properties and campuses, where the storage, heating and movement of water are central to operations, may find this especially significant. More importantly, proactive water-conservation solutions add resiliency, establishing a self-sufficiency that guards against potential disruption to the water supply.

Approaches like these are highly customizable to the asset, and are responsive to new economic and environmental realities. With attention to water usage nearing the status of electricity and waste, we expect a rise in case studies demonstrating how better water management can dramatically improve building operations. Programs such as BOMA's Water and Waste Challenge showcase best practices and keep the topic at the forefront of ESG efforts.

Tenants Take a Greater Interest

Though not to the level of attention from the commercial real estate user as energy usage, water conservation will become more meaningful and measurable as water and sewage costs rise over time. Tenants may begin to request itemized water usage and associated costs in landlords' utility billing.

But water is unlike energy in that users cannot go to market for competitive pricing – the resource must come through a utility provider. This has not deterred tenants and operators from making their interests clear. “Green leases,” designed to align owner and tenant financial and sustainability goals, are becoming more common across the industry.

A green lease may require the tenant to use resource-saving methods when updating or operating their space; for example, installing cost-saving water fixtures that are 30% more efficient than the calculated baseline, or establishing temperature guidelines that aim for both tenant comfort and HVAC efficiency.

While we estimate that less than 10% of new leases today are green leases, we expect to see more interest as the focus on water conservation intensifies in coming years. BOMA's Green Lease Guide provides excellent guidance regarding the operational, managerial and legal implications of such a lease.