LEGAL TENANT/ESG



ESG Pressure Points for the Legal Tenant – Part II

DECEMBER 2022

Part One of the series identified the most significant environmental, social, and governance (ESG) pressures for law firms. That includes increased scrutiny from corporate clients and high selectivity from a new generation of sought-after talent who place sustainability and wellness at the top of their list when seeking employment.

In Part Two, Savills Legal Tenant will highlight ESG strategies firms can apply within existing leased spaces and when relocating to new spaces, both of which should be considered when creating or modifying a firm's portfolio-wide policy.

These tips will help legal tenants meet the demands of government regulations, client needs, and the ideals of their top talent.



Improving Your Existing Space

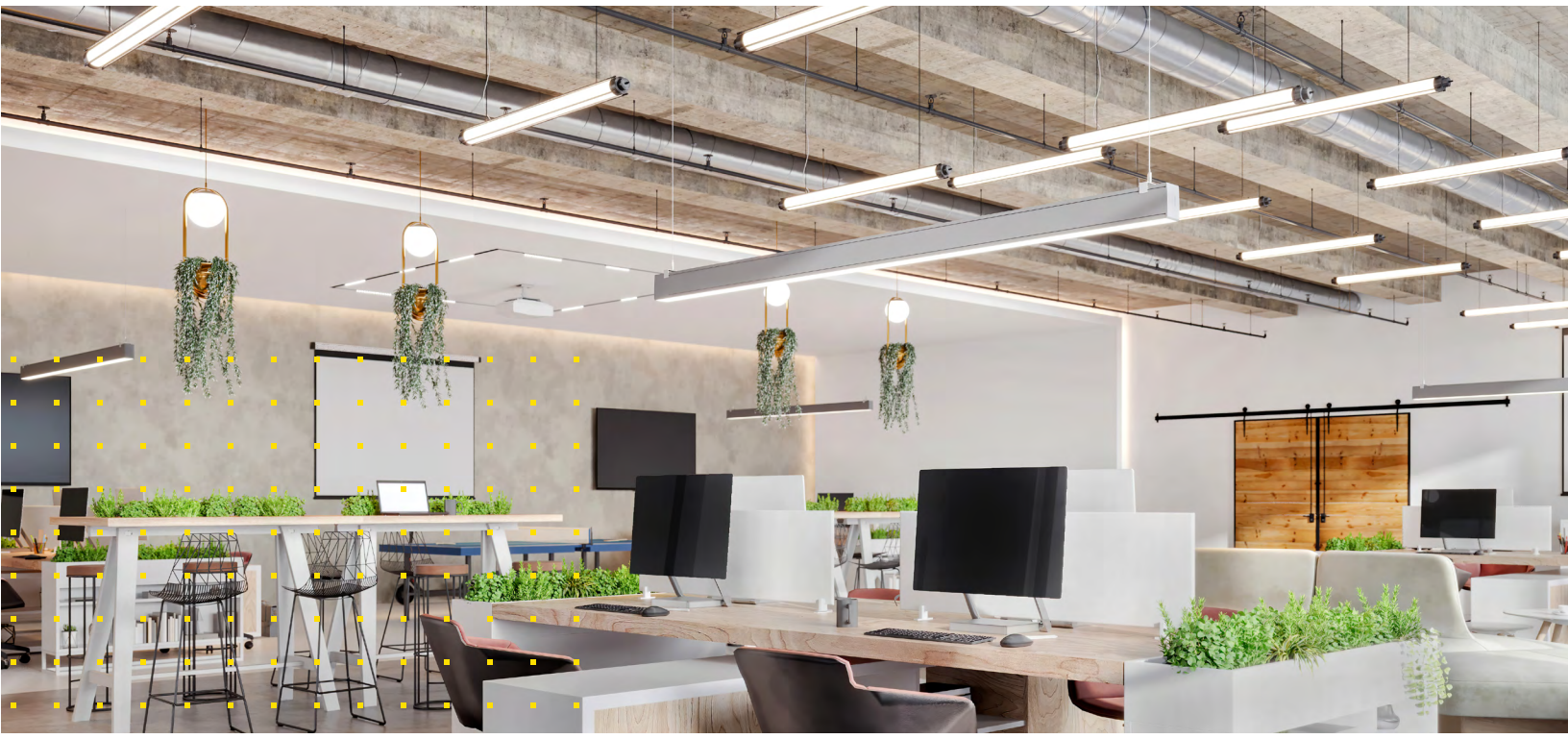


Looking at the big picture, tenants may assume that their energy use is not significant in its impact on the environment. However, nationally, commercial office tenants are responsible for an average of 40% to 60% of total energy use. In a market like Washington, DC, where office is the dominant building type, that number is over 70%[i]. As law firms are, first and foremost, users of office spaces, there is a big opportunity to make changes that benefit the environment and the firm's bottom line.

Here are five practical and cost-efficient ways your firm can integrate into its practice now to improve efficiency and indoor environmental quality:

1. Perform an audit of all efficiency and wellness features already in place, from occupancy lighting sensors and smart thermostats to air and water filters and water-saving faucets, to ensure they are fully functioning and doing their job to reduce their impact on the environment.
2. Lower your thermostat in the winter and raise it in the summer; a 1-degree Fahrenheit change can result in up to 3% energy savings. For an office in New York City, this would mean $0.25 per square foot in savings based on the market conditions of late 2022[ii].
3. Upgrade all lighting to LEDs, which use up to 90% less energy and last up to 25 times longer than incandescent light bulbs. In a 10,000-square-foot office in Washington, DC, as of October 2022[iii], this could translate into annual savings of over $15,000 even before considering the improved life span of the light bulbs.
4. According to the U.S. Department of Energy, lighting is responsible for about 30% of energy usage in commercial office buildings. Install occupancy sensors to turn off lights in spaces when unoccupied and install auto-dimming features around areas with exterior-facing windows to reduce energy consumption.
5. Encourage employees to turn off their electronics when not in use and/or have your firm's I.T. department activate "sleep mode" settings on office equipment when not used for a certain period because plug loads typically contribute to 30% of energy use in buildings. Making sure computers and screens are off during the nighttime when not in use could save on energy consumption and cost with no up-front investments.

Communicating any environmental or policy changes and their intended effects to your employees before, during, and after modifications are made is critical. Having employee buy-in can create a sense of collective mission and greatly improve the likelihood of ongoing compliance.



The Potential for Your New Leased Space



Negotiating a lease for a new space creates the best opportunity to leverage a tenant's position. By focusing on ESG goals as an important part of site and landlord selection and creating a "green lease," you can maximize your firm's ability to minimize its environmental impact.

A green lease, also known as a high-performance lease, helps manage and improve the environmental and social performance of a building by landlords and tenants and includes clauses stating both parties' commitment to sustainable operation and data sharing on energy, water, and waste.

The Institute of Market Transformation (IMT), a nonprofit organization that promotes high-performance buildings, indicated in its recent study that "green leases can help reduce utility bills by approximately 50 cents per square foot in U.S. office buildings alone," reaping the market "over $3 billion in annual cost savings."

Below are five approaches that law firm tenants should consider as they enter the relocation process:

1. Create criteria for your firm's new space that would make the office attractive enough to warrant a commute by making the commute easier and offering features that contribute to employees' well-being. These features include walkability, access to public transportation, bike storage and showers, wellness amenities, outdoor space, and improved indoor environmental quality. World Green Building Council reported an average of 8 to 10% increase in employee productivity due to better indoor air quality,[iv] supported by a Harvard-led study that estimates the benefits of improved ventilation rates alone at $6,500 to $7,500 per year in employee productivity.[v]
2. Identify landlords amenable to working with you on your ESG goals and agreeing on green lease terms and language. In addition to supporting ESG performance, green lease terms help tenants safeguard against unexpected pass-through costs for retrofits/upgrades that landlords will undertake based on regulations that become effective immediately or will become effective within the lease term.
3. Prioritize high-performance properties with relevant building and wellness certifications or, better yet, have the performance data proving their sustainable water, energy, and waste management practices.
4. Make sure your firm has the right to sub-meter its space, giving you the utility data to track the impact of changes you are making while not being dragged down by other tenants who are not as focused on their ESG metrics.
5. Examine if there is access to renewable energy, onsite or through renewable energy credits.



Improving ESG Performance at Scale

While developing, updating, and implementing your ESG-aligned real estate strategies, engaging with other law firm peers through sustainability-focused organizations for legal tenants, such as the Law Firm Sustainability Network, could be a good way to stay up to date, maintain momentum, and improve ESG performance across the legal industry.

For law firms with multiple offices across the country and/or the globe, it is useful to consider developing a portfolio-wide policy on leasing and maintaining their real estate in alignment with an overall ESG strategy. This ensures continuity and consistency in the criteria whether an office is relocating or if an existing office space requires sustainability improvements. Firm employees, notwithstanding their location, will all benefit from similar enhancements and amenities. When local or federal regulations add requirements that apply to legal tenants, the portfolio-wide policy can be updated and serve as an ongoing guide for all office locations.



Hyon K. Rah
Director, ESG Consultancy,
Washington, D.C.
+1 202 624 8508
hrah@savills.us

Sources:
i. Institute for Market Transformation. Link
ii. US Bureau of Labor Statistics (2022). Link
iii. US Bureau of Labor Statistics (2022). Link
iv. World Green Building Council (2013). Link
v. MacNaughton, P.; Pegues, J.; Satish, U.; Santanam, S.; Spengler, J.; Allen, J. Economic, Environmental and Health Implications of Enhanced Ventilation in Office Buildings. Int. J. Environ. Res. Public Health 2015, 12, 14709-14722. Link

At Savills, we help organizations find the solutions that ensure employee success. Sharply skilled and fiercely dedicated, our integrated teams of consultants and brokers are experts in better real estate. With services in tenant representation, capital markets, project management, workforce and incentives strategy and workplace strategy and occupant experience, we've boosted the potential of workplaces around the corner, and around the world, for 160 years and counting. Amplify the power of your people.

savills