



## Sustainability and Corporate Social Responsibility in Retail Real Estate

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Opening Worlds

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## Introduction

Of all the sectors within commercial real estate, spaces dedicated to retail are often the ones that have the largest impact on people's lives. Retail shopping centres have long been the place where people come together and communities are anchored. The setting for this activity had, up until the 1970s, been the iconic 'Main Street' with its town squares and other public spaces surrounded by shops. With the mass adoption of the automobile and development of suburban cities came the development of the shopping mall. These large, indoor environments were generally located on the outskirts of towns and only reachable by car. The popularity of these new structures led to a decline of the Main Street concept and, subsequently, a privatization of the local gathering place.

As the world is confronted by climate change, high energy costs and economic difficulties, it is clear that the retail shopping centre is going to need to undergo some significant changes in order to stay relevant in a time of rapid change. This paper will explore some of the key issues faced by the owners, operators, tenants and customers of retail real estate establishments and discuss, with examples, how innovation, corporate social responsibility (CSR) and sustainability can be applied.

## Retail Industry in Canada

Retail sales in Canada account for 21% of GDP<sup>1</sup> and retail stores account about 2% of all energy used<sup>2</sup>. As of 2008, there were over 2,500 shopping centres in Canada, accounting for over \$280 Billion in sales (65.7% of all retail sales). In addition, these centres generated over \$18 Billion in provincial sales tax revenues and employed over 1.6 Million people in 2008<sup>3</sup>. These statistics illustrate both the importance of the retail sector to the Canadian economy and the impact that it can have on its environment. Shopping centres have the rare place in society of hosting numerous stakeholders (management, employees, and customers) in a single facility. Due to this unique position in society, there are many who argue that the retail sector is best suited to take a leadership role in advocating and practicing social responsibility<sup>4</sup>.

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<sup>1</sup> David Walker, "Sustainability: Environmental Management, Transparency and Competitive Advantage" Journal of Retail and Leisure Property, 2008.

<sup>2</sup> Natural Resources Canada, "Commercial and Institutional Consumption of Energy Survey", June 2007.

<sup>3</sup> Jean Lambert, "Canadian Shopping Centers Kept Rolling in 2008" International Council of Shopping Centers, 2009.

<sup>4</sup> Dunbar, B., Hyllegard, K.H., & Ogle, J.P., "Predicting Patronage Behaviors in a Sustainable Retail Environment", Environment and Behavior, 2004.

## Evolution of the Shopping Centre

As mentioned above, over the past few decades, the shopping mall has replaced the Main Streets and Town Centres of the past as the setting for shopping, social activity, and as a gathering place<sup>5</sup>. This is largely a by-product of the advent of the automobile and the post-war suburbanization of North America. Given that malls are privately owned, there is concern that these gathering places are now sterilized and overly corporate with security guards used to keep out elements deemed undesirable<sup>6</sup>.

Recent developments in society and the economy have suggested that the mall as we know it may not be long for this world. High fuel prices, fears of global climate change, the collapse of suburban real estate markets, and a general nostalgia for 'Main Street' and boredom with the mall concept are all contributing to this demise. In the United States, this is reflected by a large-scale abandonment of malls. A recent study showed that 13% of American malls stood vacant while another 15 to 20% of malls were failing<sup>7</sup>.

Given these factors, sustainability and CSR are quickly moving toward the top of priority for managers of Real Estate Investment Trusts (REITs) that own and manage retail spaces. This prioritization includes appointment of executive-level managers dedicated to sustainability<sup>8</sup>. As this report will discuss, these CSR and sustainability initiatives relate to environmental performance, philanthropy, and to the concept of renewing the Main Street concept, contributing to the rebirth of the shopping centre as a gathering place where local residents can express and experience culture and community. Research done on this topic has found that the benefits of CSR in the retail context include the development of goodwill with the local community; increased customer loyalty, visits and retail sales; a better understanding of a centre among customers; increased staff loyalty; improved stakeholder relationships; enhanced reputation; competitive edge over comparable centres<sup>9</sup>.

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<sup>5</sup> Michael Southworth, "Reinventing Main Street: From Mall to Townscape Mall", *Journal of Urban Design*, June 2005.

<sup>6</sup> Michael Southworth, "Reinventing Main Street: From Mall to Townscape Mall", *Journal of Urban Design*, June 2005.

<sup>7</sup> Michael Southworth, "Reinventing Main Street: From Mall to Townscape Mall", *Journal of Urban Design*, June 2005.

<sup>8</sup> Steve McLinden, "Green Goals", *Shopping Centers Today*, April 2008.

<sup>9</sup> Bowd, R., Bowd, L., & Harris, P., "Communicating Corporate Social Responsibility: an Exploratory Case Study of a Major UK Retail Centre", *Journal of Public Affairs*, May 2006.



## Trends

### Reimagining the Shopping Mall

As the era of the shopping mall comes to an end, developers are finding new and creative ways to use the land on which these malls sit by either augmenting the facilities into higher density mixed-use developments, or repurposing the site(s) altogether into schools, churches and community centres. This is part of a larger trend where suburbs are attempting to create downtowns where there previously were none<sup>10</sup>.

The idea behind densification and mixed-use developments is that communities will develop where people can live, work and shop while limiting or potentially eliminating the need for a car. Unlike the shopping malls of the past, these communities are designed to accommodate pedestrian access and ideally mass transit access such that a car is not a requirement for accessing the site<sup>11</sup>.

### Green Building Certification

Green building certification systems have grown in recent years as the industry and environmental advocacy groups attempt to develop standards and benchmarks for what would be considered a sustainable building. The unique physical and social characteristics of buildings that are used for retail shopping have led to the creation of a LEED-certification program specifically for retail establishments<sup>12</sup>. Attributes of LEED for Retail certification include a 20 to 30% reduction in water usage, energy use reductions and alternative energy generation technologies, an allotment of land for habitat<sup>13</sup>, use of natural light, environmentally conscious parking, and 'brownfield' redevelopment<sup>14</sup>.

### Stakeholder Demand for Sustainability

Shopping centres have a special place within their communities as a place where local residents work, shop, and spend their time. Because of this relationship, shopping centres are being looked to, to be good corporate citizens and perform in areas such as CSR and sustainability can. Such measures can have a significant impact on the image of the centre. Recent studies have shown that consumers are increasingly ranking the social responsibility of their local shopping centres as "very important" and that the

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<sup>10</sup> Michael Southworth, "Reinventing Main Street: From Mall to Townscape Mall", Journal of Urban Design, June 2005.

<sup>11</sup> Michael Southworth, "Reinventing Main Street: From Mall to Townscape Mall", Journal of Urban Design, June 2005.

<sup>12</sup> Steve McLinden, "Making Sustainability a Selling Point", Shopping Centers Today, February 2009.

<sup>13</sup> Maria Bird Pico, "Council Adapts LEED for Retail Real Estate", Shopping Centers Today, May 2008.

<sup>14</sup> Hortense Leon, "Energy Savings Shine Brightly", Retail Traffic, July 2008.

negative perceptions of a centre's CSR performance can limit the effectiveness of the traditional marketing mix activities while positive performance may amplify the benefits of a marketing strategy<sup>15</sup>. The suggestion here is that shopping centres cannot gloss over poor social performance through a glitzy marketing campaign because consumers' will cease to trust the messaging of the centre. On the other hand, if the centre is seen locally as a positive contributor to the community, the level of trust with the consumers will increase and thereby add value to the centres ability to build a positive brand image through more traditional marketing activities.

Another example of the shifting stakeholder expectations placed on retail shopping centres is the increasing use of 'green' as a marketing tool. While this does bring up concerns of 'green-washing', where false or exaggerated environmental claims are used as a marketing and public relations tool, it is clear that environmental friendliness is something that stakeholders are demanding. Both centres and the shops within them are embracing the concept of green as a means of connecting with their customers and the communities in which they live<sup>16</sup>. If properly addressed this demand from consumers can create benefits for mall owners through higher rents, ability to 'pre-select' tenants, and save on their utility bills<sup>17</sup>.

This principle also extends to tenant recruitment. In difficult economic times, the competition for top tenants intensifies significantly. Beyond location and price (which are extremely interrelated), shopping centre owners need to find ways to differentiate their property. By implementing sustainable and socially responsible practices, building owners offer an opportunity for retailers to connect with customers that identify with these causes while subsequently reducing exposure to risk of energy and water cost increases<sup>18</sup>.

## **Partnering with Environmental NGOs**

Real estate developers and owners have traditionally had an adversarial relationship with environmental groups. These groups have tended to take an antidevelopment stance while the developers ignored their concerns. Recently the two sides have begun to find some common ground in which they can coexist and examples abound of shopping

<sup>15</sup> Alexander, A., Oppewal, H., & Sullivan, P., "Consumer Perceptions of Corporate Social Responsibility in Town Shopping Centers and their Influence on Shopping Evaluations", *Journal of Retailing & Consumer Services*, 2006.

<sup>16</sup> Jayne O'Donnell, "As Shoppers Change, So Do Stores", *USA Today*, January 26, 2010.

<sup>17</sup> Steve McLinden, "Making Sustainability a Selling Point", *Shopping Centers Today*, February 2009.

<sup>18</sup> John Gummer, "Forced Turn to Sustainability is the Upside of this Downturn", *Estates Gazette*, April 19, 2008.



centre developers gaining endorsement from prominent environmental groups such as the Natural Resources Defense Council (NRDC), the Sierra Club, and Environmental Defence<sup>19</sup>.

One of the main areas where these groups have clashed in the past is the practice of developing open spaces into shopping malls, single-family housing, office parks, and other sprawl-encouraging developments. Conversely, where environmental groups and developers are finding common ground is in 'brownfield' redevelopment projects. Brownfield redevelopment is defined as the use of abandoned industrial sites to develop new communities, ideally mixed-use developments that can restore life to a depressed area, reduce sprawl and potentially restore at least some wildlife habitat. Brownfield redevelopment is a required component in attaining LEED for Retail certification<sup>20</sup>.

### **Measuring and Modelling Technologies and Techniques**

As shopping centre owners strive to reduce the use of energy and water in their facilities, the need has arisen to monitor and measure these emissions. In the past it has been very difficult to truly understand how much of these resources are being consumed and which areas of the facility they are being consumed in. This becomes increasingly important in the shopping centre context where there are dozens of different tenants engaged in different sorts of activities in addition to large, open common areas. Without being able to pinpoint the cause and effect of energy and water use from the different areas of the facility, it becomes very difficult to make improvements to specific areas and ensure that the benefits (i.e. cost savings, publicity) are allocated to those that made the investments in conservation.

With this in mind, many shopping centre owners are employing third-party energy management firms and installing computerized systems that allow not only monitoring of systems, but the ability to control and adjust the systems in a manner that maximizes efficiency<sup>21</sup>. This allows for the creation of a tangible plan to reduce energy and water usage while staying within the realities of a mall and the comfort expectations that customers have<sup>22</sup>.

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<sup>19</sup> Joel Groover, "Common Cause", Shopping Centers Today, April 2006.

<sup>20</sup> Steve McLinden, "Making Sustainability a Selling Point", Shopping Centers Today, February 2009.

<sup>21</sup> Hortense Leon, "Energy Savings Shine Brightly", Retail Traffic, July 2008.

<sup>22</sup> Doug Burgess, "Selling Retailers on Energy", Energy and Power Management, August 2006.

## Examples

### Simon Property Group

Simon Property Group is the largest publicly-traded REIT in North America with a portfolio of regional malls, outlet centres, community and lifestyle centres. Given the position that shopping centres have in communities and the size of Simon's portfolio, it seems natural that corporate citizenship and environmental performance would rise to the top of their agenda.

As part of an initiative to become a "landlord of choice" in the communities in which Simon's properties are located, the company has put in place an aggressive plan to reduce its energy usage<sup>23</sup>. Of course, this initiative was not entirely purely due to Simon's concern for the environment as they had determined that energy costs were in the amount of 5% of annual revenue and accounted for 30% of all controllable operating costs<sup>24</sup>.

The plan that Simon put together to reduce their energy footprint was extensive and methodical. The first step was the implementation of energy management systems to monitor and control the use of energy within their properties. At the same time, mall management was made increasingly aware of the issues at hand with regard to energy and how they could have a positive effect on the company's energy goals<sup>25</sup>.

In addition to these internal initiatives, the company became a voluntary participant in the Carbon Disclosure project in 2005 and formed a partnership with the United States' Environmental Protection Agency (EPA) to establish a partnership to issue Progress Reports on energy usage in buildings that were under their direct control<sup>26</sup>. As a result of this program and the resultant savings, Simon Property Group was named ENERGY STAR Partner of the Year by the EPA<sup>27</sup>.

The net result of these initiatives is a 6.8% reduction in energy usage which it estimates will amount to an annual savings of as much as \$18 Million<sup>28</sup>. In addition, Simon achieved

<sup>23</sup> Doug Burgess, "Selling Retailers on Energy", Energy and Power Management, August 2006.

<sup>24</sup> Doug Burgess, "Selling Retailers on Energy", Energy and Power Management, August 2006.

<sup>25</sup> Doug Burgess, "Selling Retailers on Energy", Energy and Power Management, August 2006.

<sup>26</sup> Steve McLinden, "Green Goals", Shopping Centers Today", April 2008.

<sup>27</sup> Doug Burgess, "Selling Retailers on Energy", Energy and Power Management, August 2006.

<sup>28</sup> Steve McLinden, "Green Goals", Shopping Centers Today", April 2008.

an 11.7% reduction in its carbon footprint, meaning that 93,000 tonnes of carbon emissions were eliminated<sup>29</sup>.

## **Destiny USA**

Destiny USA is one of the most ambitious real estate developments ever undertaken. The plan for Destiny is to redevelop a beleaguered brownfield area of Syracuse, NY, with a \$20 Billion mega-mall, entertainment and hotel complex<sup>30</sup>. Aside from its massive scale, this project is notable for its goal to use 100% renewable energy in its operation and construction. This includes a paperless planning and documentation process, construction machinery running on biodiesel, as well as massive solar, wind and fuel cell installations to power the facility once it is operational<sup>31</sup>.

The developer has hailed the project as a testing ground for new technologies as well as an opportunity to bring down the costs of alternative energy technologies by increasing their scale. For example, the solar installation would single-handedly boost the United States' solar energy capacity by 10%<sup>32</sup>. The developers of this project have been continuously challenging the contractors and other partners on the project to innovate in order to increase the environmental performance of the project and push the boundaries of what people thought possible<sup>33</sup>.

Of course, projects of this size do not come without controversy. There is some debate as to the validity of a fossil fuel free development that aims to bring tourists from all corners of the world and thus create carbon emissions. In addition, there is debate over the creation of an artificial world that is being marketed as a contributor to the saving of the natural world<sup>34</sup>.

## **Atlantic Station**

Atlantic Station is a \$2 Billion, 138 acre mixed-use project built on a brownfield in Atlanta, Georgia. The developers consulted with and received support from Environmental

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<sup>29</sup> Hortense Leon, "Energy Savings Shine Brightly", Retail Traffic, July 2008.

<sup>30</sup> Amanda Griscom Little, "The Mall that Would Save America", The New York Times, July 3, 2005.

<sup>31</sup> Amanda Griscom Little, "The Mall that Would Save America", The New York Times, July 3, 2005.

<sup>32</sup> Amanda Griscom Little, "The Mall that Would Save America", The New York Times, July 3, 2005.

<sup>33</sup> Tom Sawyer, "Developer's Challenge to Construction: Innovate for Destiny", Engineering News-Record, Dec 3, 2007.

<sup>34</sup> Amanda Griscom Little, "The Mall that Would Save America", The New York Times, July 3, 2005.

Defence and the NRDC. The project is particularly notable in a city that is known for sprawl and low density<sup>35</sup>.

### **Forest City**

The Forest City development is a great example of how sustainability and CSR can be built into the framework of the organization. In this case, the managers provide a handbook on sustainability for current and prospective tenants both in retail and food services<sup>36</sup>.

### **Regency Centers**

Regency Centers is another example of a REIT that is building sustainability into its core strategy. The firm is investing over \$600 Million in developing environmentally certified shopping centres over a three year period. In addition to their investment properties, Regency is also taking sustainability to their headquarters and has announced plans to retrofit their HQ to be environmentally friendly as well<sup>37</sup>.

### **Diversified Property Corporation**

Diversified Property Corporation has embedded environmental performance into their core operation. This initiative is summed up in their 'Green Strategies' document. This plan includes strategies for encouraging recycling by tenants; discouraging the use of styrofoam and plastic bags; mandating the use of gasoline-electric hybrid security vehicles; co-sponsorship of tenant seminars on energy and water use with utility companies; and the elimination of after-hours lighting<sup>38</sup>.

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<sup>35</sup> Joel Groover, "Common Cause", Shopping Centers Today, April 2006.

<sup>36</sup> Steve McLinden, "Making Sustainability a Selling Point", Shopping Centers Today, February 2009.

<sup>37</sup> Steve McLinden, "Green Goals", Shopping Centers Today", April 2008.

<sup>38</sup> Steve McLinden, "Green Goals", Shopping Centers Today", April 2008.

## Recommendations

### **Consider Sustainability and CSR within Corporate Strategy**

In the examples given and the writing on this subject, it is clear that the organizations that have had the most success with sustainability and CSR initiatives have been the ones that consider it to be a core piece of organizational strategy rather than a stand-alone initiative. Many of the problems caused by shopping centres come from the core operations and must be solved or restructured at the core. When a shopping centre considers its effect on the local area both in terms of its direct contributions to landfill waste generation and energy usage as well as its more indirect contributions to sprawl, excessive car trips and disconnected communities, it becomes clear that its core structure and operations need to be augmented in order to reduce these effects.

### **Measurement is the First Step**

As shown in the case of Simon Property Group, in order for effective emission-reduction programs to be put in place, it is important to understand the amount and the nature of these emissions. Once a building owner or manager develops a true understanding of where they currently stand, they will be able to identify 'quick wins' that deliver the highest effect for the lowest investment and then proceed from there. These systems also allow for strategic planning and continual improvements beyond an initial project.

### **Partner with Tenants Wherever Possible**

One of the main issues for commercial real estate owners is that they need to find a way to share costs and incentives with their tenants when developing strategies around sustainability or CSR. This is especially complicated in a shopping centre due to a large number of independent tenants occupying different-sized units for different purposes. Because of this no two tenants are going to have the same profile with regard to environmental or social performance.

With this in mind, building owners and operators should seek to engage tenants in sustainability initiatives. By engaging, consulting with, and making formalized agreements with tenants, shopping centres can ensure that initiatives take hold and are implemented according to plan and, ideally, that centre itself is able to pass along costs of renovations and other project expenses.

**Densification**

One of the keys to developing a shopping centre that is sustainable is to think beyond the existing concept of a mall. Sustainable shopping centres will be part of walkable, mixed-use communities that bring together retail shopping, offices and multi-family residential units. These projects should have open spaces for people to gather and for cultural activities to take place and ideally would have some space set aside for use as wildlife habitat.



## Conclusion

Retail shopping centres hold a special place in the commercial real estate sector. They have become the setting for large parts of people's lives and because of that, have the ability to make either a positive or negative impact on the local community and environment. As it becomes clear that the suburban model is beginning to fail, shopping centres have the opportunity to rebuild the communities in which they are located by providing the setting for people to live, work, and spend their days as opposed to being an isolated destination where visiting requires a car and the only purpose is shopping. This effect requires a fundamental change in the idea of the mall but the benefits to property owners could be immense. These benefits include reduced operating costs through energy savings, additional revenue through development of office and residential space in areas previously occupied by parking, increased retail space rental rates through higher foot traffic and store visits, and an enhanced social license to operate within the community in which they have become a catalyst for positive change.