A New Vision for Property Development

Three key strategies to reduce risk through energy and resource planning

By Jeremy Gordon, Liv Isham and Garrett Kephart

Today’s Environment
Capital improvement projects for commercial buildings face a number of significant short- and long-term challenges in today’s environment.

In the short term, schedule overruns and misaligned incentives among building owners, investors, developers and operational stakeholders can derail a project from its goals and significantly reduce value long after project closeout.

In the long term, many capital development projects fail to take advantage of early opportunities to reduce energy and resource costs. With commercial sector electricity prices projected to increase by up to 91 percent over the next 25 years, building owners and operators face major cost increases coupled with increasingly stringent energy efficiency standards and conservation goals.

By incorporating energy and resource improvements into capital development projects, building owners and developers can limit the need for costly retrofits, while also pre-empting two of the primary reasons for not undertaking energy and resource productivity projects: (1) lack of capital and (2) short-term payback/return on investment (ROI).

Point B’s Perspective
The risks associated with these short- and long-term challenges can be mitigated by emphasizing three key strategies during project planning and implementation.

1. **Limit the risk of cost and schedule overruns.** Select project managers with the right tools and skills. Well-managed implementation can have a significant positive impact on a company’s financial performance. Building owners and developers can significantly reduce expensive risks to scope, budget and schedule by hiring project managers with the right skill sets rather than delegating this role to internal people in order to save costs.

Focus on capital efficiency. Owners, investors, developers and operators should balance upfront costs with long-term operating expenses in order to yield greater returns and meet energy and resource productivity targets. Stakeholders can identify opportunities to optimize ROI from energy and resource productivity investments by designing and implementing capital productivity optimization models.

2. **Align stakeholder incentives.** Connect efficiency investments to business unit financial outcomes. Commercial properties will have multiple managers throughout their lifetimes: asset

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managers, property managers, portfolio managers and institutional owners. Creating positive incentives that align the interests of each stakeholder group from the outset can mitigate the impact of competing priorities.

Optimize the business case. Applying scenario modeling and advanced analytics at the outset of a capital development project can help quantify the impact of project-level risks and provide greater certainty around achieving energy and resource productivity targets.

3. **Leverage opportunities for reducing long-term operating expenses.**

Consider long-term energy and sustainability costs during the planning phases of a capital improvement project. Energy, water and natural resource costs are among the most controllable operational expenses—unlike taxes and insurance. Taking a holistic approach to the long-term energy expenses of a commercial building can eliminate the need to repeatedly build costs into an annual budget, enable operational savings in the short-term, and sustain cost savings for the long-term.

Create a revolving funding source dedicated to energy, water and resource productivity investments. Over the last decade, many organizations have launched green revolving funds as a strategic opportunity to finance energy, resource and sustainability initiatives. These funds can accelerate the implementation of resource productivity investments, achieve short payback periods, and hedge volatile resource cost risks.

**The Bottom Line**

Point B is uniquely positioned to protect the financial interests of property development project owners by serving as an unbiased resource that can manage and facilitate aspects of the entire project lifecycle. We provide:

- **A single, comprehensive source of expertise.** Selecting a single owner with the skills to effectively manage risks across the duration of a capital development project significantly reduces the challenges to cost, schedule and scope associated with a project that has multiple vendors.

- **Industry and functional experience.** Point B brings nearly two decades of industry experience in construction and energy sectors, as well as functional expertise conducting project leadership, advanced analytics, risk assessment and modeling, and capacity sizing.

For more information about Point B, visit our Sustainability Report and Property Development Services website.

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<th>Risk</th>
<th>Impact</th>
<th>Solution</th>
<th>Point B Expertise</th>
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<tr>
<td>• Capital development projects face competing incentives between business and operational owners</td>
<td>• Project lacks essential buy-in • Ownership/accountability diffused • Project loses value after close-out</td>
<td>• Hire objective third party to identify, assess, and align property stakeholder incentives</td>
<td>• Project leadership • Scenario planning &amp; simulation • Advanced analytics</td>
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<td>• Cost and schedule overruns on construction projects result from insufficient resources, poor leadership, and overspending</td>
<td>• Unpredictable cost variances • Uninformed, misaligned, and inaccurate expectations • Inefficient use of project resources</td>
<td>• Use advanced analytics for robust cost estimation • Single source of project management expertise reduces project risk</td>
<td>• Project leadership • Advanced analytics • Health check • Construction management</td>
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<td>• Capital development project planning takes a narrow, rather than a holistic, approach to short- and long-term operational expenses</td>
<td>• Optimizing individual building components is less effective than increasing the productivity of a building as a system</td>
<td>• Leverage capital development projects as opportunity to address long term energy costs and energy and resource productivity targets • Optimize financial returns by reducing operational expenses</td>
<td>• Risk assessment &amp; simulation • Capacity sizing • Industry expertise: in energy, resources, sustainability and construction management</td>
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