

## **ICSC Europe: Response to the Consultation on “Financial support for energy efficiency in Buildings”**

The International Council of Shopping Centers (ICSC) welcomes the current consultation on “Financial support for energy efficiency in Buildings”, which seeks to address some of the identified barriers to the uptake of energy efficiency in the commercial built environment such as the question of split incentives for energy efficiency investments.

Retail is a major economic sector with a key role to play in meeting Europe’s 2020 targets. The environmental footprint of retail covers a broad range of impacts from the manufacture and transportation of goods, consumer behaviour packaging and waste as well as the energy consumption and environmental impact of the buildings. Retail in shopping centres is a key pillar of Europe’s retail market, with studies showing that around ¼ of all retail sales take place within shopping centres. As the developers, owners and managers of Europe’s shopping centres, ICSC and its members are working to improve the environmental footprint of retail property developments, including their energy use.

The issue of split incentives has been identified as the most critical issue in terms of investment and implementation of energy efficiency. A range of measures can be envisaged to tackle this problem, ranging from the establishment of a European framework that regulates this through green leases, to the introduction of financial incentives or education. Most of the investments to refurbish and upgrade existing commercial buildings to make them more efficient are borne privately, by building owners. The access to funding to energy efficient buildings is either inaccessible or unknown. For this reason, some of the questions outlined in the questionnaire cannot be answered at the moment. Nevertheless, ICSC wants to contribute to this consultation by means of this paper which outlines some of the main barriers and solutions found within the retail industry.

### ***Split incentives***

In the consultation, the European Commission rightly points out that split incentives are one of the barriers to make energy efficiency a reality in today’s existing buildings.

The split incentive problem arises when the costs of making energy efficiency improvements fall on one actor while the benefits are reaped by another. In the case of shopping centers, it is the owners/managers of the building who have to undertake the required upgrades in the center whilst the tenants reap the benefits in terms of the energy saved. In a challenging economic climate, it is often difficult to pass on these costs. Shopping center owners therefore, have little incentive to upgrade the building as they will not receive a return on their investment.

It should also be noted that implementing energy saving measures in the context of a shopping center is also an arduous task as shopping center owners often have no control

over the amounts of energy used in the different tenants' shops (for lighting, refrigeration, air conditioning, etc.), neither do they have control over the tenants behaviour in the common areas of a shopping center.

**A European approach to tackle this problem is required to ensure there are no disparities amongst Member States which can lead to abusive behaviour from one of the parts.** The Commission should seek to build a framework encouraging information exchange on energy consumption between owners and tenants, and put in place **financial and fiscal incentives for implementing energy efficiency measures not only related to building and renovation or infrastructure enhancement, but also encouraging behavioural change** (e.g. by providing incentives for "shuttles" in shopping centers so that consumers use public transport). Moreover, the Commission should **encourage some of the best practices outlined below**, which lead to effective efficient management of buildings.

### **Best practices**

ICSC members are committed to delivering the highest standards in sustainability. In doing so, they are engaging in a series of activities to improve sustainability in their shopping centres. These include:

**Green leases** are well implemented within the retail sector: landlords have defined their green lease strategy, so that tenants of shopping centers when signing the lease take account of the so called "green clauses", which include energy criteria (e.g. limit of the lighting power in the premises). Green leases, coupled with an exchange of information between owners and tenants on energy consumption, allow for a proactive management of the energy performance.

The **exchange of information** on energy consumption between shopping center owners and tenants is also vital to the energy performance of the building, and therefore, ICSC members always encourage it.

In addition, other initiatives have already been implemented in the retail sector to encourage reduction in the overall energy consumption. These include:

- **Certification** of all new development projects (e.g. BREEAM, BREEAM In Use or LEED schemes)
- **green clauses with main suppliers** (maintenance and cleaning)
- replacement of lighting and heat/cooling systems for more efficient ones
- proactive management of natural lighting and other sources for a mall to become more resource-efficient and be able to produce onsite energy

### **Raising awareness**

As already stated, in shopping centres it is very important that both building owners and tenants understand the need and benefits that can be reaped through energy efficient improvements. **Education** is of utmost importance. ICSC members have created sustainability committees with tenants to educate and create a positive emulation on site so

that efficiency becomes a principle as well as a common practice. All these best practices just emphasise how important it is to **involve tenants in the sustainability debate by raising awareness of their energy choices and its consequences**. This will help both shopping center owners and tenants to jointly build a strategy to reduce the carbon footprint of shopping centres.

Awareness is required not only in terms of behavioural change to become more efficient, but also in terms of the **existing funding programmes that are available for building renovation at European level**. As stated, investment in energy efficient improvements within shopping centers is borne mainly by the developers, and **access to existing efficiency funds would be welcome** in this sense.

## **Conclusion**

ICSC believes that the shift to energy efficient buildings needs to be accompanied by measures that incentivise it as well as a proper division of the costs and the benefits of energy savings. In the case of commercial buildings, it is therefore clear that the issue of split incentives between owners and tenants ought to be addressed through the establishment of best practices, education and the promotion of instruments such as green leases. Furthermore, given the lack of return of investment, incentives that encourage building owners to upgrade the buildings will be drivers to sustainability in the retail sector. As a result we would like to make the following recommendations:

### **Recommendations:**

- **Promote the use of green leases in the commercial built**
- **Promote exchange of information on energy consumption between tenants and owners**, through BREEAM in-Use or other schemes
- Encourage **education on energy efficiency measures and benefits** amongst stakeholders
- **Develop financial and fiscal instruments** that encourage best practices from developers and retailers
- **Raise awareness on EU-funding available for refurbishment of buildings**

### **About ICSC**

*The International Council of Shopping Centers is the global trade association of the shopping center and retail property industry with some 55,000 members in more than 90 countries.*

*ICSC Europe has 2,000 members from across the EU and beyond including shopping center owners, developers, managers, investors, architects and other professionals. The principal aims of ICSC are to advance the development of the shopping center industry, to improve research and communication on the sector, to promote professional education and to build on-going dialogue with policy makers and other stakeholders.*