

# The Sterling Report

## Economics Of The Post Recession Building Environment

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**T**he two most important issues facing the building industry in the 1990's are environment and economics.

The commercial building industry has been impacted by the current recession probably more than other sectors of the economy. Lease rates throughout North America have plunged as vacancies have increased.

### Good News! The Recession is Over!

Economists now tell us that the recession is over! This is good news! Commercial real estate should rebound. But a major change has occurred. Tenants now consider the environment provided inside the building to be nearly as important as its location. Such factors as air quality, temperature, illumination and acoustics have taken on a new found prominence.

Governments and professional organizations have responded to this new awareness with both legislation and more restrictive building and operating standards. For example, the American Society for Heating and Air Conditioning Engineers (ASHRAE) has published a new Ventilation Standard to maintain acceptable indoor air quality. In some cases this new standard may require up to eight times the amount of outside air be provided to offices than was required by the previous standard.

### Why this new awareness about the environment in buildings?

During the energy conscious 1980's, scientists discovered an epidemic of discomfort and discontent among building occupants. Just as economic concerns

drove efforts to improve energy management strategies, it is economic implications that are driving this new environmental awareness.

U.S. researchers have estimated that the national cost of lost productivity due to poor air quality in the commercial office sector is in the order of 10 billion dollars per year. A further 10 billion dollars per year may be lost due to increased absenteeism among office workers.

The cost of poor environmental quality is not restricted to the office. In the retail sector, loss of revenue due to discomfort of clients because of poor air quality ranges from 1 - 10 billion dollars annually.

Researchers estimate that poor air quality alone in the commercial building sector could cost as much as 30 billion dollars annually. To give this number some perspective, according to the **Fraser Institute**, 30 billion dollars amounts to almost 10% of the Canadian National Debt.

Whether or not these estimates are correct is debatable. After all, these estimates are based on assumptions such as that employees will not perform as well under greater environmental stress than under lesser environmental stress or that cost due to absenteeism is known.



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What is not debatable is that the economic implications of the building environment have become an important concern for office tenants.

As the commercial building industry recovers from the recession, it is imperative that owners and managers respond to this new environmental demand. In fact, it is likely that for a commercial project to be successful in our post recession recovery, a tenant inducement to guarantee environmental quality will become an essential lease factor.

The British Columbia building industry may be the first to feel this pressure. In addition to being the fastest growing Province, British Columbia has a reputation as the most environmentally concerned population in Canada. Thus the environmental imperative may be most urgent for the B.C. building sector to address. **Re**