Building Green: A Win-Win for All

by *Julie Stamato* September 2008

By all accounts, there is an explosion of interest in building environmentally friendly buildings. The movement to "build green" is being propelled by property owners, property managers and real estate investors as well as architects, developers and others in the construction industry. In addition, increasing numbers of governmental agencies at federal, state and local levels are enacting legislation promoting or even mandating green building projects.

It's clear that sustainable development is the morally correct thing to do, but does it make good business sense? Most would agree that we owe it to our children to build responsibly in a way that does not permanently destroy our natural resources. Some experts estimate that buildings contribute up to forty percent of all carbon emissions. The goal of building environmentally "sustainable" buildings is to reduce the emission of greenhouse gases, conserve water and electricity and make our natural resources available for future generations. But aside from feeling good about taking the responsible path, why is green design so popular? Are there good business reasons to go green, or is going green an expensive proposition adding to the cost of development that is difficult to justify even in the long term?

Higher Rents and Sales Prices and Lower Operating Costs

Studies show that there is an increasing demand by purchasers and tenants for sustainable green buildings. According to a recent study by CoStar, green buildings that are certified under the LEED rating system described below command higher rents, higher occupancy rates and lower operating costs, and are sold for higher sales prices. CoStar found that LEED certified buildings have rents that are $11.24 per square foot higher than rents for non-LEED certified counterpart buildings, and have 3.8 % higher occupancy than their non-LEED certified counterparts. Perhaps more remarkable is the study's finding that LEED certified buildings command sales prices of $171 per square foot more than the sales prices for buildings that are not LEED certified.

LEED, which is an acronym for The Leadership in Energy and Environmental Design, is a national rating system created by a nonprofit organization called the U.S. Green Building Council to provide uniformity and accountability in developing green buildings. LEED is the leading nationally accepted benchmark for the design, construction and operation of environmentally friendly buildings. LEED rating systems have been developed for different kinds of projects, including new construction, existing buildings, tenant improvements, core and shell, schools, retail, homes and healthcare.

The LEED rating system is intended to give building owners and operators a roadmap to measure the sustainability of their buildings by awarding points for achievement in five key areas affecting human and environmental health, including sustainable site development, water savings, energy efficiency, materials selection and indoor environmental quality. Depending on the number of points awarded, a project awarded points for achievement in these five key areas may be designated

- LEED certified,
- LEED Silver,
- LEED Gold or
- LEED Platinum.

There are other rating systems, including the Energy Star label administered by the U.S. Environmental Protection Agency, which target simpler strategies such as installing energy efficient windows and sensors which control lights. However, LEED is by far the most widely accepted system used by building owners and operators.

Building green was the hot topic among the institutional investors attending the National Green Building Finance and Investment Forum in San Francisco earlier this year. At that seminar, top institutional investors discussed whether LEED certification should be a component within the definition of a Class A office building. According to one attendee, the investors concluded that new buildings constructed without LEED certification are obsolete.

Building owners find that reduced operating costs over the long-term, coupled with the availability of financial and tax incentives, can cover the cost of installing energy-efficient systems, including:

- solar roofs
- automated light sensors
- energy efficient light bulbs
- fixtures that promote water conservation and recycling
- energy efficient heating and cooling systems.

For example, within 10 months, giant software maker Adobe Systems earned back the $1.4 million it paid to implement conservation measures in its existing headquarters.

Jumping on the Bandwagon

Retailers have aggressively pursued green building to match consumer demands for green buildings and green products. Kohl's announced that its target was to obtain LEED certification for more than 80 stores scheduled to break ground in 2008. Office Depot recently opened a 21,000 square foot "green" prototype store in Austin and is seeking to establish itself as a green leader in the retail sector. Wal-Mart, Starbucks, McDonald's, Target, Home Depot, REI and Whole Foods also are working on LEED retail prototypes. *See inset for other notable LEED certified projects.*

Retailers have found that adoption of green programs have enhanced public opinion of their companies. According to these retailers, LEED certified buildings present significant potential for long-term cost-savings in the areas of energy and waste.

Numerous cities across the country have enacted green building ordinances that require government-owned buildings, including schools and universities, civic centers and public hospitals, to achieve

LEED certification. In addition, many municipalities have gone further, and require LEED certification or other green standards for the private sector. Earlier this year, the City of Los Angeles passed a green building ordinance, based on LEED compliance, that will require new developments over 50,000 square feet to be at least 15% more energy efficient over current California code standards.

Other municipalities, while not mandating green standards, offer various incentives for green projects, including grants to help cover the costs of designing a LEED certified building, expedited plan checks, reduction of parking requirements, reduced permit fees and property tax reductions.

The State of California has embraced green legislation and programs. In July 2008, California became the first state in the nation to mandate green building techniques, including energy efficient measures, for all new construction. California's Building Standards Commission enacted new building standards that will take effect on July 1, 2009. Initially, these standards will operate as guidelines but, incrementally over the next three years, these standards will become code requirements. In addition, the California Solar Initiative, adopted in 2006 with a budget of $3.3 billion over ten years, aims to provide incentives that would induce building owners to install solar panels on rooftops and to utilize other solar technologies.

Incentives…and More Incentives

Utility companies also have offered incentives to both residential and commercial property owners to implement green measures. Some building owners have leased their rooftops to utility companies so that solar panels can be installed and maintained to supply electricity for thousands of households. The Los Angeles Department of Water and Power provides financial incentives to LEED certified construction and rehabilitation projects, and pays the owner an amount based on the square footage and number of points earned in the LEED energy category. Pacific Gas & Electric provides rebates to owners of residential or multifamily properties for installation of energy-efficient cool roofs that reflect and emit the sun's heat back to the sky instead of transferring it to the building below. California electric utility companies are required to offer net metering to customers who generate up to one megawatt from a solar or wind-energy system. Thus, after installation of a solar roof, when surplus energy is delivered back to the grid, the

Notable Green Projects

Among LEED-certified projects underway or recently completed are:

- 21-acre, master-planned Towers at Bressi Ranch, located in Carlsbad, California, that includes 280,000 sf of industrial/flex and stand-along office condos.
- New 208,211 sf building for future headquarters of William Morris Agency, located in Beverly Hills, California.
- Olympic Village in Beijing, home to the Olympic athletes, earned a LEED Gold Certification.
- Portland's Avalon Hotel and Spa, an existing hotel, achieved LEED Silver Certification.
- Hines, the international real estate investment and development firm, was awarded LEED Silver status for its 12-story, 265,605 sf office tower in Irvine, California.
- Symatec Corp., which provides security and systems management solutions, achieved LEED Gold Certification for its Culver City, California campus.

utility company pays the customer for the surplus energy, and the customer's electric bill is reduced or eliminated.

Various tax deductions and credits also are available for implementing green measures in constructing or rehabilitating a building. Federal tax deductions are permitted to commercial building owners for the cost of certain energy efficient property. In addition, nonrefundable federal income tax credits equal to 30 percent of the tax basis of energy property, including certain solar energy equipment, is available for properties placed in service before January 1, 2009. Finally, many states, including California, offer state tax incentives for implementing green measures in both residential and commercial buildings.

The case for building green is compelling, and owners should give serious consideration to the long-term benefits of implementing green measures in their new construction and existing buildings. Similarly, tenants should push for environmentally friendly tenant improvements that would reduce operating costs. Building green makes good business sense in light of soaring fuel prices, the trend to mandate or promote energy efficient buildings through legislation, the demand for environmentally friendly buildings and lower operating costs, and possible increase in valuation of the building resulting from LEED certification. Many will find that the reduction of energy bills and other operating costs, coupled with tax and other financial incentives, clearly justify the costs of building green.