



A Landlord's Guide to Competing with Green Buildings



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Have you toured a LEED certified building yet? They're pretty cool – or warm, depending on your personal preference. Tenants have options they rarely have had in traditional office buildings. They often can control their own air conditioning and heat, open windows, see natural light and views, get priority parking if they drive gas-saving cars or carpool, shower at the building after locking up their bicycles, breathe healthier air, and much, much more. The excitement about being in a green office building is spreading from the environmentally correct large corporations down to smaller tenants with healthy consciences, civic pride and the desire to be on the cutting edge. However, tenants that want to be in the buildings that have earned certifications will have to pay the considerably higher

rental rates.

CoStar Group Inc., a national database Web site of buildings for lease or sale, has conducted extensive research on the differences in rental rates and occupancy rates for green vs. non-green buildings, and their findings are more surprising than expected. Since 2005, the nationwide difference between occupancy rates for Energy Star buildings and their peers has grown from almost no difference to approximately 2.5 percent in 2009. If LEED certified buildings are compared to non-certified buildings, the occupancy difference grows to 5.4 percent. National rental rate differences for Energy Star buildings vs. their peers have increased from \$2.32/SF in 2005 to \$4.73/SF in 2009; and if only LEED certified buildings are compared to non-certified buildings, the rental rate gulf is \$9.06/SF.

Ace Schlameus, a Houston leasing specialist with Grubb & Ellis said, "It is common for Fortune 2000 companies who are tracking their carbon footprints to request a building to upgrade to minimum LEED standards, at least for their suite." He went on to explain that he lost a 65,000 square foot lease opportunity with an engineering group that wanted a more efficient and healthier workplace, believing that ultimately the savings in operating costs and productivity would be worth the larger initial cost.

Sandy Benak, a marketing manager with Dallas-based Granite Properties said their plan is for all of their

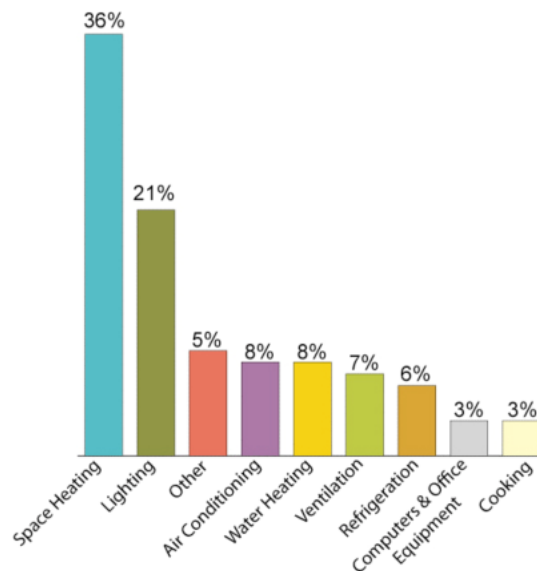
buildings to be LEED certified, whether they develop them or renovate to those standards. “The reasons are two-fold,” Benak said. “It is the responsible thing to do – using safe products, recycling, etc. And national tenants find our rates to be competitive.” Although some cities’ buildings are quickly going green, such as Houston where 600 buildings had registered to be LEED certified by the end of 2009, the vast majority of buildings are not currently green. Leasing agents for these buildings are starting to feel the sting of rejection as more tenants’ brokers inquire about their environmental and energy efficient improvements, even for smaller companies.

So how do owners of older office buildings compete in this environment? Because rental rates will be the deciding factor for the majority of companies, there is plenty that can be done by landlords relatively inexpensively to make an older building more attractive, healthier, competitive, and reduce operating expenses which are passed through in lease rates.

A great place to start is an energy-use assessment that explains where and how much energy is being used in the building. Local utility companies can provide a free or inexpensive energy audit to identify where improvements can be made. Numerous renovations are simple and inexpensive; and others have a quick return on the investment (ROI).

The greatest energy wastes are in lighting, air conditioning, heating and ventilation (HVAC) and the thermal envelope of the building. Jano Nixon with Cameron Management in Houston, Texas said the electrical systems in the Houston Club Building had been run on a manual basis until they purchased it in 2007 and upgraded to a web-based system that controls the zones. The reduction in electricity use and labor hours (since it can be accessed offsite) has reduced overall cost by 30 percent. Landlords can make simple renovations to the building’s envelope that result in fast savings. Upgrading insulation, weather stripping and sealing improve the building’s resistance to the elements. For a larger up-front cost, but a bigger effect on the bottom line and potentially a more appealing look, replace the old windows and doors with new high-performance versions.

Energy Use in Commercial Buildings, 2003



Source: Energy Information Administration, 2003 Commercial Building Energy Consumption Survey, Table E1A (September 2008).

The speed of the ROI is a deciding factor for many landlords. A large-scale example of what can be

expected is illustrated by The GSA (General Services Administration) Workplace Performance Study of 2009. Many of the federal buildings have perimeter fan-coils, induction units, and radiators that will need to be replaced soon. The agency analyzed making those changes and upgrading the exterior windows of the buildings at the same time. The conclusion was that if they only retrofit 40 percent of GSA-owned buildings with correctly sealed high-performance R4 windows with high visible transmission (60 percent or greater) to maximize daylight, the estimated annual energy savings would be \$12.8 million. The benefit to tenants is that the new windows will reduce noise, drafts and provide better views and more daylight. The payback period is three to five years. In addition, the high-quality windows may even remove the need for heating and cooling along the building perimeter, providing greater savings in energy use and operating expenses.

Attractive lighting system upgrades can range from simple to a complete replacement. Inexpensive and easy changes include reducing the power where areas have excessive or unneeded lighting. Consider removing one lamp from existing three-tube fluorescent lights or installing occupancy sensors and time clocks to automatically turn lights off. One creative owner of a multi-acre parking garage had the 24-hour/7-days-a-week fluorescent lighting replaced with motion-activated lights that dim by 90 percent when no one is around. Phillips & Johnston/Rock River Fabrication replaced 183 metal halide light fixtures (458W/fixture) with 185 T8 Fluorescent six-lamp fixtures (205W/fixture) saving \$28,635 a year and a return on investment in 1.8 years. Solutions such as low-mercury fluorescent systems or even LED options are somewhat expensive, but the energy savings and reduced maintenance provides as much as 70 percent energy savings.

Another easy way to reduce energy costs includes deregulated purchasing of electricity at lower rates. With the assistance of utility consulting firms, USSCO purchased electricity in deregulated states, saving them \$865,000. Grubb & Ellis was hired to make recommendations for Sony's New York building that included it in a pooled bid for electricity. Along with some related changes, Sony saw a savings of over \$1 million a year. Additionally, they completed an attractive lighting retrofit which resulted in more savings.

Potable (drinkable) water reduction saves money fast. Changing to modern, efficient water faucets and plumbing fixtures helped update the appearance at 200 Market Street in Portland, Oregon while demonstrating a 67 percent ROI in as little as 1.5 years. Elaine Aye of Green Building Services said "The 17-story building achieved a 31 percent water use reduction beyond the Uniform Plumbing Code." Decorative changes that reduce the use and cost of potable water can be accomplished with efficient landscaping. Recycled water may be used on the plants; and plants that are native to the area may receive all the water they need from rain.

Grubb & Ellis also did a comprehensive review of waste hauling, and a waste monitoring system was installed at Regional Distribution Centers for United Stationers. The resulting decrease in unnecessary pickups not only reduced United Stationer's costs by \$52,000 but reduced fossil fuel emissions and enhanced the company's green footprint.

Landlords can easily prepare a one-page marketing piece to include in proposals that lists the environmental and energy-saving changes being used in a building. Additional easy modifications include using safe cleaning products, installing carpets and wall coverings (including paints) with low VOCs (volatile organic compounds), replacing air filters on schedule with high-performance filters, providing recycle bins, decorating the building with recycled or regional furniture and accessories, installing walk-off mats at entryways to collect dirt, installing bike racks, showers and changing rooms, CO2 sensors, and motion sensors (to reduce lighting usage), and reserving parking spots close to the entrance for fuel-efficient cars or carpools.

Many owners of commercial real estate are getting creative in their demonstration of green initiatives. Granite Properties has placed a large glass bowl in the lobby of their buildings to collect and recycle used wine corks. The tenants love the idea and support it so much that the bowl must be emptied several times a week. Cameron Management's in-house team renovated a sorely neglected park that was attached to the Houston Club Building. After re-landscaping, repairing the sprinkler system and fountain, and installing

security cameras and a rover, employees from surrounding buildings can sit and enjoy fresh air and a beautiful green setting.

Some landlords have found that when tenants are educated and aware, they improve their habits, enjoy participating in producing good results and telling others about it - which translates into free marketing. For instance, tenants that have "gross, full service" leases don't know how much electricity they use. When tenants receive individual utility bills as part of a "net" lease, they are reported to use an average of 21 percent less electricity.

To help office building owners get started or further improve their bottom lines, the federal, state, and local authorities offer incentives and other policies. Sony earned a local tax rebate of \$400,000 for its efforts at the New York building. One state-by-state database Web site of tax credits, grants, financial incentives and other opportunities for funding related to energy efficiency upgrades can be found at www.dsireusa.org.

These examples are just a few that can help building owners effectively compete to win tenants, especially those with green consciences. Companies' decision makers always like value such as attractive buildings and good service. When the landlord also reduces operating expenses, protects tenants and their environment, AND offers the office space at a \$9.00 per square foot (*lower* than a LEED certified building) lease rate, the odds start looking pretty good for these landlords to attract and keep good companies in their buildings.