

RCA Report



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FEATURE STORY

LEED, Follow, or Get Out of the Way



The British Philosopher Thomas Paine, said, "Lead, follow or get out of the way."

Paine lived in another generation and was not contemplating the role of the commercial real estate broker in the green movement in the U.S. Or was he?

The role of the broker in this process is evolving and poised for significant future growth. Corporate America increasingly is embracing the financial and altruistic benefits of green. Green is becoming more clearly defined, and federal agencies are putting significant financial resources behind the movement.

Green is not getting out of the way. It is gaining considerable momentum.

- In a 2008 study, Greener Buildings reported the number of Leadership in Energy and Environmental Design (LEED) certified new and existing buildings more than doubled in a two-year period. As of April of 2009, 2,488

commercial projects had been certified under LEED ratings systems and 19,524 projects were registered with the intent of obtaining certification when completed.

- Significant stimulus money is being tied to sustainable development and retrofit projects.
- The Small Business Administration (SBA) is preparing to formally announce a new program that will double the amount of money available for real estate owners who implement an energy reduction or renewable energy generation project.
- A 2008 national study by Costar determined LEED buildings command rent premiums of \$11.24 per square foot over their non-LEED peers and have 3.8 percent higher occupancy. Rental rates in Energy Star buildings represent a \$2.38 per square foot premium over comparable non-Energy Star buildings and have 3.6 percent higher occupancy.

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BY THE NUMBERS

Numbers Tell the Story of Green

Following the theme of this issue, By the Numbers takes a closer look at the impact of green—its growth over the years and some of the major ways it is changing our world. These areas of impact go above and beyond the cost of green and its return on monetary investment, and to more natural areas, land use, water, energy, etc.

This part of By the Numbers is excerpted from the Green Building Impact Report 2008, produced by GreenerBuildings.com and Greener World Media.

Green buildings, as represented by the U.S. Green Building Council's (USGBC) Leadership in Energy and Environmental Design (LEED) Green Building Rating System, are an undisputed market success.

Overall, LEED buildings are making a major impact in reducing the overall environmental footprint of

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LEED, Follow, or Get Out of the Way

Energy efficiency in America is not just a concept, but rather a reality.

Given the magnitude of these statistics, the number of brokers working toward a LEED AP designation is increasing. Traditionally, this designation has been reserved for architects and designers, but recently commercial brokers have entered the fray to demonstrate a commitment to environmental practices, and to set themselves apart.

Beth Young, vice president, investment services for Grubb & Ellis in Houston, is a Leadership in Energy and Environmental Design Accredited Professional (LEED AP) in the Houston market, where she received her designation in December of 2008. Her motivation was client-based.

Young estimates it took 300 hours of studying to pass the LEED AP exam.

John T. Gledhill, first vice president for CBRE in Chicago and a LEED AP, received his designation in 2008. As clients began inquiring more about green and sustainable practices, Gledhill committed himself to acquiring the knowledge.

He recently completed work on his first green project, serving as the broker for the buyer and seller in what turned out to be a 170,000-square-foot build-to-suit project in Elgin, Ill. for Siemens—a wind energy provider. The recently completed facility is striving to achieve the LEED Silver rating. While Gledhill was able to provide real estate services, his knowledge also allowed him to act as a knowledgeable consultant on green development for his client.

"We brought the land to the developer and then brought the client and developer together," said Gledhill. "...It was easier to speak to the client on all aspects of the project because I had a familiarity with the process."

Knowledge is a powerful tool and leads to future opportunities.

"My clients are primarily investors in office and medical property," said Young. "Most facilities constructed now are Energy Star and when my clients want to sell these buildings, they need a broker who can highlight the marketing aspects. They need a broker who can tout the energy savings."

If building owners can prove significant energy savings, they may be able to charge higher rents, but a portion of that will rely on the marketing prowess of the broker. This is where commercial brokers can set themselves apart.

"Any broker can be taught to describe the generalities of the long-term cost savings of energy efficient systems;

but the broker who has earned the LEED AP has a much deeper understanding of the additional amount of work and specific requirements that went into the project," said Young. "Any owner or developer that has taken on the challenge of building a LEED-certified building or renovating a building to LEED standards would only logically want someone to market it that has a real understanding of the challenge. The seller would want the prospective buyer to understand what a great building this is that is being marketed."

Thomas Coalson, a LEED AP from Colorado, will be the instructor of NAR's Green Designation Course. Coalson has been involved with and committed to green practices in real estate since the early 1970s. He has decades of "disappointment" behind him as countless developers and construction firms failed to share his commitment



Siemens Winery BTS in Elgin, Ill. is attempting to achieve LEED Silver.

to sustainable practices in the past.

"It was a rough go for many years," said Coalson. "Owners and developers didn't want to do it. I had to show them that it was making money."

"Solar was a fad in the 1970s. Investors never got their money back because the technology wasn't good. It was for people who wanted to make a statement," Coalson said. Now, it is different. There is an ROI and there is potential profit. It's a good business decision now, not just a fad."

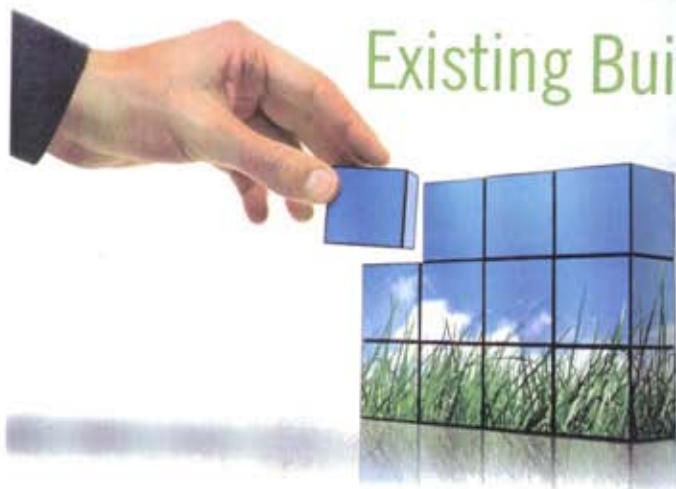
Some brokers aren't embracing the practice, not because of the benefits it can extol, but because of timing. The current state of the commercial real estate industry has put the majority of new development on hold and delayed corporate decision making on transactions where retrofitting would be a strong consideration. Others worry that efforts to tie more regulations to the process will make matters even worse. (Please see Capitol Report on page 3.)

Nevertheless, if local, state and the federal government continue to push legislation favoring green policies and the private sector champion it as smart business practices, the trend will be here to stay.

"Sustainability is a large portion of my business now and I see it continuing as more companies want to green their portfolios," says Gledhill. "For brokers out there who don't know much about green design, it's not too late. There is still time to make this a part of your repertoire." ■

The USGBC has recently retooled the LEED program to make it more accessible and inclusive. Not every professional has the ability to commit hundreds of study hours to a designation.

In 2009, LEED designations will be based on separate levels of knowledge. The traditional LEED AP will still exist, but there will also be a Green Associate designation for those who demonstrate an understanding of LEED Core Concepts and Strategies.



Existing Buildings: The Future of Green

Sustainable design is not only reserved for new development. With little new construction in the pipeline nationwide, a major focus now is retrofitting existing buildings.

Programs such as the USGBC's LEED EB and the federal government's Energy Star, provide a blueprint. Retrofitting can range from updating HVAC systems and lighting materials, to changing energy providers or cleaning firms. Credit is also given for installing bike racks to encourage low emissions employee commutes.

"Because of the economy the focus will be on retrofitting existing buildings. This is 95 percent of the market and about \$2 trillion a year in market share," said Miriam Campos-Root a LEED AP with NAI Las Vegas. "That will keep the market going and give people jobs."

The LEED numbers underscore Campos-Root's belief. There are 159 certified projects nationwide in the LEED EB program, but 825 more facilities have registered and are attempting to achieve the status.

Campos-Root, the first female LEED AP in southern Nevada, says the process is beneficial to property owners and that commercial brokers will have to play a significant role in the retrofitting scenario.

"Owners and landlords are seeking ways to add long-term value to their properties. Retrofitting to sustainable practices accomplishes this by implementing energy efficient systems and lowering operating expenses," says Campos-Root. "This is attractive to tenants and results in longer tenant retention and healthier and more productive environments."

"The LEED broker can assist the owner and

direct him to 'green' experts who can help him with his building," adds Campos-Root. "Brokers should have a general understanding of green building practices and benefits that can speak directly to owners/landlord since brokers are the first point of contact."

Danny Shaw is a broker with Keller Williams Realty Atlantic in Jacksonville Beach, Fla. He has his NAR Green designation.

One of Shaw's niches is assisting commercial clients with retrofitting lighting. He has a worksheet that compares fluorescent light bulb

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There are many steps building owners can take to make existing facilities more sustainable. A quick overview assessment of the entire building should be done first by an engineering firm or LEED AP who has a grasp of realistic cost factors for both labor and materials. Bruce Trimbur, a LEED AP and president of Trimbur Group LLC in Cornelius, N.C., provides a few quick ideas as to where owners can start.

Begin looking outdoors

- Review the parking lot and designate parking spots for low emitting fuel and fuel-efficient vehicles.
- Assess the type and source for the property's parking lot and facade lighting; consider more efficient lamp sources while seeking a reduction of light pollution.
- Encourage future use of alternative transportation by adding bicycle racks and indoor showers.
- Review the existing plantings and consider changing to adaptive plants that are native to the region, eliminating the requirement of a sprinkling system.

Indoor

- An easy way to lower the water bill is to change all water closets to low flow / double flush systems and add water sensors and low flow facets to all sinks. Not only does this save money on the water bill, but it also cuts down on creating sewage.
- If any type of demolition is required, find a reuse for as much of the material as possible. This eliminates creating landfill waste. The old or excess material may also be broken down and sent to a recycle center.
- Buy locally made products and material whenever it is financially feasible.

Energy efficiency

- If perimeter offices are built with solid walls, consider adding windows to allow natural light into the core space.
- Change the lighting system and HVAC systems to be more energy efficient. This is considered sustainable and is eligible for tax deductions under IRC section 179D of the Energy Policy Act of 2005, which was extended as part of the Emergency Economic Stabilization Act of 2008. Tax deductions vary, depending on the reduction in energy use per square foot.
- Buy renewable energy contracts for at least a two-year period for 35 percent of the buildings electrical use.
- If re-carpeting, painting or gluing, request alternative costs from your sub-contractors to use low emitting VOC (Volatile Organic Chemicals) materials following the guidelines of USGBC LEED v3.
- Add a recycle center that is easily accessible for building occupants.

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—Miriam Campos-Root, LEED AP, NAI Las Vegas

costs to a potential Light Emitting Diode (LED) system. The potential savings often startle clients.

For one client, the owner of a 5,100-square-foot commercial center, he projected a net \$9,450 in savings within five years of converting to an LED system. LEDs burn much longer and use a fraction of the wattage that fluorescent bulbs use, cutting down on energy and carbon emissions, while saving property owners and tenants on energy expenses.

It looks great on paper, but then Shaw shows them the upfront cost of converting to LED and

clients generally show apprehension. “They don’t want to pony up front,” said Shaw. “They don’t look at the long-term aspect.”

This problem may be the thorn-in-the-side of the green movement. While most companies like the long-term savings and the environmental benefits, many see the up-front costs as a risk.

“If you are concerned about the short-term, this is not for you,” said Shaw. “However, if you like spending 70 percent more on operating expenses than you need to, that is your prerogative.”

Shaw said the savings in energy and

maintenance costs would be paid off within three years on a \$16,000 conversion project. The bulbs then have a life span of 18,000-20,000 hours, or about 18 years. That is 15 years of considerable savings and much less in carbon emissions.

While the long-term numbers may be good, the headwinds still are strong as many owners do not want to pay for the work.

To stir interest in retrofits, the federal government is now adding incentives in the form of tax deductions that may get more building owners off the fence.

A tax deduction of up to \$1.80 per square foot is now available to owners of new or existing commercial buildings that save at least 50 percent of the heating and cooling energy of a building that meets ASHRAE Standards: Partial deductions, up to \$.60 per square foot, can be taken for measures affecting one of three building systems: the building envelope, lighting, or heating and cooling systems. (See www.energystar.gov/taxcredits) ■

70% of homebuyers said they were more inclined to buy a green home in a down economy than a non-green home.

62% of all state governments have adopted green building policies (with 18 states coming on board in the last 3 years alone).

Feel the momentum.

Like you, people from every sector and region of this country grow more passionate about green every day. With the knowledge and resources of NAR's GREEN designation, you can put your passion to work for change.

It's the right thing to do.

Consumers are demanding it.
Government is requiring it.

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Visit us at www.GreenREsourceCouncil.org

Source: *Green Outlook 2009: Trends Driving Change*, McGraw Hill Construction