

Cover Story

Gone Green Yet?



Sustainable design
is making its way
into every market.

by **Sarah Hoban**

There's no question that green commercial building is grabbing its share of headlines these days. Major corporations such as Toyota, Goldman Sachs, Hearst Corp., and BP have built and moved into environmentally responsible buildings. National commercial real estate companies such as Liberty Property Trust, Hines, and Transwestern are developing and managing sustainable properties. A 40-story green office tower in Chicago, built for \$200 million in 2005, was sold for \$350 million, or \$422 per square foot in 2006, setting a market sales record. These are just a few examples of the green movement's impact on the commercial real estate industry.

"The market is incredible for green commercial," says Jerry Yudelson, principal at Yudelson Associates, a green building consulting firm in Tucson, Ariz. "The sea change in attitude in the development community in the last 18 months is just breathtaking."

The value of green building construction starts is expected to exceed \$12 billion in 2007, according to the U.S. Green Building Council, citing McGraw-Hill Construction Analytics. Since launching its Leadership in Energy and Environmental Design building rating system in 2000, USGBC has registered

Sarah Hoban is a Chicago-based freelance writer. She has written for *Commercial Investment Real Estate* on mixed-use and transit-oriented developments.

Proposed mixed-used development 321 North in Plantation, Fla., is part of the Leadership in Energy and Environmental Design Neighborhood Development program, which is creating a national LEED rating system for community-wide design and development.



U.S. Capital Holdings

almost 8,000 projects and certified nearly 1,000 buildings, encompassing more than 1 million square feet. At the same time, more than 38,000 professionals in the commercial building industry have become LEED-certified, the USGBC reports.

But the push toward green isn't just in major markets with big-name developers who are certifying their projects. Commercial real estate professionals in smaller markets, on smaller scales and budgets, also are developing environmentally friendly properties for all the same reasons as the headline-grabbers: energy savings, healthier indoor environments, and smaller carbon footprints.

Conservation in California's Capital

Aguer Havelock Associates is the leasing agent and has worked on the development of a 12-story office building scheduled to break ground this fall and open in spring 2009 in Sacramento, Calif. It's already been certified LEED Silver.

Although the city is only 100 miles from San Francisco, "Sacramento is a little behind the Bay Area in LEED certification and sustainability," says Thomas C. Aguer, CCIM, SIOR, president of Aguer Havelock. In fact, he's fielded calls about the building from brokers and corporate real estate reps unfamiliar with LEED, he adds.

But Sacramento also is home to a number of LEED-certified state government buildings and a high-profile governor who's

made water conservation and environmental concerns top agenda items. So when Aguer began working on the Natomas Corporate Center Gateway Tower and the architect recommended LEED certification, the choice seemed like a good fit. The architect's firm had a LEED-certified designer and the project's general contractor had a LEED-certified engineer on staff.

The 340,000-sf building, which Aguer believes will be the first privately funded LEED-certified office building in Northern California, is located on Interstate 5 between downtown and the airport. Aguer describes the area as a "suburban office park close to downtown, with about three million sf of class A suburban office buildings in the area. Most are two to six stories, so this will be a big step up."

The building's green features include the use of recycled and regional construction materials; the recycling of more than 75 percent of construction debris; preferred parking spaces reserved for low-emitting vehicles; and design and construction guidelines to help tenants with green build-outs.

Water conservation and indoor air quality are two major green elements of particular interest to Aguer. The building will save five million gallons of water a year by using water-saving plumbing fixtures as well as a cooling system that can reuse water and then irrigate the outside landscaping through its runoff.

And the heating, ventilating, and air-conditioning system,



Close-Converse Commercial Properties



Aguer Havelock Associates

Clockwise from left: ● The 64-story 340 on the Park, designed by Solomon Cordwell Buenz architects, is Chicago's first green residential high-rise to achieve the U.S. Green Building Council's Leadership in Energy and Environmental Design Silver certification. ● The Arts-and-Crafts style of this office park makes it easier for investors and tenants to accept its less-traditional sustainable design features. ● Low-use plumbing fixtures installed in the Natomas Corporate Center Gateway Tower in Sacramento, Calif., will save five million gallons of water a year.

is “hospital quality — it runs 85 percent to 90 percent clean, whereas most office buildings run at 35 percent,” Aguer says. The filters are a thick felt-like material designed to pull 90 percent of the particulate matter out of the air, he adds. Ducts for the system are washed and cleaned at the factory, sealed in plastic, and shipped to the project, so they’re never touched until they’re installed in the building. All carpet, adhesives, and paint will be low volatile organic compounds, and daylight will be available to 75 percent of the space.

The quality of the indoor environment is an important marketing draw for the building — and for all green buildings. “Studies are showing the increase in efficiency of employees. People working in these clean buildings are healthier, happier, and more productive, and that’s going to get corporate America’s attention. Social responsibility is great, but when you show them that they will be 2 to 5 percent more efficient, that’s a huge number when you run that out on a major international corporation with hundreds of thousands of square feet,” Aguer says.

The Green of Green

While improved productivity can bolster a company’s bottom line in the long run, tenants also must weigh their upfront costs, which for Gateway Tower are competitive, Aguer says. “It’s a new building and rents will be comparable to new buildings being built downtown,” he says. He estimates lease rates to be about \$36 psf. As of July — two months before construction was slated to begin — no tenants were signed, but there had been substantial interest. “I’ve had managing partners of law firms, accounting firms, and service companies look at the model, listen to the presentation, and say, ‘If this building were up today, we’d be moving in,’” Aguer says.

A green building can be price competitive because “if you make a building LEED-certified from day one, it doesn’t add substantial cost,” Aguer says. “You’re still going to have to put in bathroom fixtures and an HVAC system. Maybe you’ll add some

additional incremental costs, but if you start from day one, it's not that big an impact to your budget."

It also helps that the building's developer is not an institutional developer, but "very innovative — a very entrepreneurial person," Aguer says. At the same time, he says, explaining LEED to investors "isn't too tricky. It makes sense economically and socially as well. It's pretty hard not to buy into this. And if you look at the rewards you generate, it's definitely worth the investment."

Green building consultant Yudelson concurs. "We're learning how to do high-performance buildings on conventional budgets, so we're cracking the cost barrier," he says. Add to that energy savings, productivity gains, marketing and public relations benefits, and faster lease ups, "and you have growing recognition of the business case for green in all dimensions."

It's a learning process, he adds. "If you're a developer doing a few buildings a year, for your first few projects you're going to have to budget extra money to do the learning. But once you figure it out, you can deliver a rated green building for the same price that you're now delivering a so-called standard building. So if this is where the marketplace is going, then I tell people you've got to buy your way in. You've got to build expertise."

Marketability in Minnesota

That's a process that's underway right now in central Minnesota. The Fairview Office Park in Baxter, Minn., is a planned development laden with sustainability features. Eventually, eight Arts and Crafts-style buildings will cluster around a park-like bioretention area on a 4.4-acre site. The first building opened this spring and a solar power panel already is in place, powering the servers of the technology company occupying the building. The buildings' interiors will feature low-VOC materials and high-efficiency mini fluorescent lights, which reduce energy use. Outside, native plants cut down on water, fertilizer, and lawnmower use. Rain barrels capture rainwater, which is used to irrigate the landscape.

The developer is a family-owned business with a strong environmental interest, which has been the project's major driver. However, marketability is the main consideration, says Rod Osterloh, a commercial broker at Close-Converse Commercial Properties in Brainerd, Minn. "We helped them with site selection and we've been trying to advise them all along the way on the economics of it," he says. "While it's easy to find people to spend your money to do a green project, you always have to look to what the market is going to support."

"While we're in a very environmentally sensitive market, in the lakes and forest area of Minnesota, I'm not sure if we're ready for goats on our roof, so to speak. So we need to be cautious about what the market is going to accept."

Part of the project's marketability is its visual attractiveness, Osterloh says. "They've worked with their builder and designer to create an energy-efficient building style that is also attractive. It's not a weird sort of design."

Even so, there are drawbacks to blazing a trail. "There are no other green buildings in our neighborhood," Osterloh says. "Consequently you can't find appraisers with local experience who can do a good job of appraising. But because this project looks normal and standard, getting appraisals and financing has been much easier."

When finished, each building will range in size from 3,500 sf to 5,000 sf. Six of the sites are for sale, with prices from \$129,000 to \$179,000. Lease space in the second building, now under construction, will go for \$21 psf gross for finished space.

But one thing the office park won't have is LEED certification. "They really don't have the intention of making it [LEED-certified], because of the high cost of resources in terms of time and money to go through the certification. But part of the philosophy is that even if you're not going to be a LEED-certified project, there are still a lot of small steps that you can take," Osterloh says.

The property will be open to the public for conservation design education and as a resource for other interested builders and developers. "There is a lot of information out there," says Christopher C. Close, CCIM, a commercial broker at Close-Converse Commercial Properties in Brainerd. "It can be a challenge to take this complicated process and simplify it so the end user can see the direct results of it. It's everyone's intention to do what's best for the environment, but they want to have a balance between doing what's best for the environment and keeping costs feasible."

The developers "really tried to focus on doing simple, cost-effective techniques that the average businessperson actually could implement and not have to break the bank or have a Ph.D. to understand," Osterloh adds.

One method of cost control has been partnering with a number of environmentally focused groups, ranging from the University of Minnesota Extension Service to the Master Gardeners of Crow Wing County, Minn. "Partnering with other groups is certainly an advantage," Osterloh says. "There's so much information out there that trying to sort through it requires experts. You can pay for that expertise, or by strategic partnering, you may be able to get a lot of that expertise and the right information a lot faster and more cost-effectively."

Learning in Louisville

Finding the expertise was precisely the problem that Daniel A. Huneke, CCIM, ran into when he started planning a 30,000-sf office condominium project in Louisville, Ky. President of Dancor Commercial Properties in Louisville, Huneke wanted to incorporate some energy-efficient features into the project, but found it frustrating to track down useful information.

"Everybody is still on the learning curve," he says, "and these building techniques and products haven't integrated themselves into the familiarity of the average developer." He wanted to install solar panels on the roofs of the two buildings in the development, but couldn't find local experts to help him evaluate the economics of such a move.

Instead, Huneke attended a trade group seminar of local companies selling energy-efficient construction products and learned about Icynene, a formaldehyde-free, spray-in foam insulation material. He's decided to use the product in the office condos and believes that it will do a better insulating job than fiberglass insulation. "You may have an R19 wall bat, but after a humid summer here, it drops to about a 4 or 5." The foam, on the other hand, expands as it's sprayed in and retains its insulation value.

"It'll be a little extra cost, but it will tighten up the building and reduce energy cost to tenants," Huneke says. He's also installing a white membrane roof to reflect radiant heat, solar tubes for natural lighting on the second floor, and electrical outlets in the park-

Rehabbing Green

Owners of existing buildings also can enjoy the benefits of sustainable facilities, including lower energy and water costs, healthier work environments, and lower overall operating costs. And while there's still a perception that retrofitting can be costly and time-consuming, the real estate industry is learning that's not necessarily the case.

Consider the JohnsonDiversey global headquarters in Sturtevant, Wis. The manufacturer spent \$73,800 — or 27 cents per square foot — to implement a series of green improvements in the 277,440-sf building constructed in 1997. These included measures to increase energy efficiency, as well as instituting a recycling program, revamping its cleaning processes, and even collecting storm water for landscape irrigation. The company says it's achieved an annual net savings of \$137,320 — or 49 cents psf — and a 15-year life cycle net savings of \$4.87 psf. It's reduced its energy costs by \$90,000 a year, uses two to four million fewer gallons

of water a year to irrigate landscaping, and recycles more than 50 percent of its site-generated solid waste.

The case study is featured in "Deliver the Green," a booklet published by the International Facility Management Association, that details how facilities can become Leadership in Energy and Environmental Design—Existing Building certified. The booklet is online at www.ifmafoundation.org/deliverthegreen.pdf.

The LEED-EB rating focuses on ongoing maintenance issues in buildings, such as energy and water efficiency, indoor air quality, recycling programs, chemical use, exterior maintenance programs, and systems upgrades to various green performance standards.

"What has happened is that those who have really explored the LEED-EB system

have found out that the return on investment is huge on doing these comprehensive quality assessment programs," says Jerry Yudelson, principal at Yudelson Associates, a green building consulting firm in Tucson, Ariz. "That's because it forces you to benchmark everything you do — it's a whole game plan."

Besides the environmental and economic benefits, Yudelson sees greening existing buildings — and the LEED-EB certification in particular — as a valuable marketing tool. "If I were a developer or property owner with some older properties, I would look at it as a rebranding tool," he says. "You can take an older property and really bring it up to better standards and rebrand it as a green building. What a great opportunity — it's cheaper than putting money into more advertising."

The JohnsonDiversey headquarters in Sturtevant, Wis., reduced its energy costs by \$90,000 a year after receiving the LEED-EB certification.



Bob Israel

ing lot for owners to recharge electric cars. "It's nothing dramatic, but it's a first step," he says.

Will it pay off when the condos go up for sale? Huneke is hopeful. He predicts a three- to four-year payback savings to buyers. "In an office condo, it's a sale point for me to offer to buyers. It's up to them to decide whether it's worth it — and how much they're willing to pay."

And that can be frustrating in his market, he says. "It's so tempting to take the easiest route," he says. "Everyone is so cautious about spending too much money on their buildings, so they have a building that costs them a lot of money for a long time versus spending a little more upfront and having something that's less costly to operate."

That thought process will have to change, say green building proponents. "If you're a long-term holder — and certainly more of the institutional money is looking long term — you have to think about what happens when your leases come up for renewal in three to five years, and you're surrounded by certified green buildings," Yudelson says. "What's that going to do to your leasing? What's that going to do to your rents? You have to think of it as a risk management step: What's the risk that I'm going to be more expensive to operate? Tenants aren't stupid; they're going to ask you to cap their energy costs at what other buildings offer, and

then you'll have to eat the difference."

"We have an opportunity to sell higher-quality projects in the same market without spending more money," Yudelson adds. "You have got to be competitive. This is no longer exotic." ■

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