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LEED's Big Market Bias

Green Building's First Mainstream Push Landed it in the Nation's Biggest Cities. But What About Everywhere Else?

Natomas Gateway Tower, a stylish, 12-story office building under construction just outside downtown Sacramento, CA, is everything a LEED-certified building is supposed to be.

It has an air filtration system equivalent to hospital standards and on-site solar panels. It includes water conservation features expected to save almost six million gallons annually. Its energy usage will be almost 20 percent better than California's Title 24 Energy Standards, already among the most rigid in the nation.

But as Northern California's first privately funded LEED office building (other green development in the area has been for the state government), the property's prestigious LEED tag is being received by an audience somewhat unfamiliar with green buildings and funny eco-friendly real estate acronyms.



A rendering of Natomas Gateway Tower in Sacramento, CA. The spec office building is expected to achieve LEED Gold certification when it delivers next year.

In other words, before this building rides the green wave, it has to help build it.

It's not that tenants aren't interested in the building -- leasing interest has been strong and several firms are mulling proposals, even with completion more than a year away, says Tom Aguer, the president of Sacramento-based brokerage group Aguer Havelock Associates who's leasing the property.

"We looked at this as the socially responsible thing to do," Aguer says about the choice by the developer, a local group called Bannon Investors, to pursue LEED Gold certification. "I'm not an ardent environmentalist, but it makes economic sense. To us, it was a no-brainer."

Now, Aguer must convince tenants that it's a no-brainer, a task in which larger markets like San Francisco -- one of the greenest commercial real estate markets in the nation -- have had a head start. "San Francisco is more cutting edge than most cities," he says. "That level of consciousness hasn't hit Sacramento."

The apparent green gap between the two Northern California cities belies the mere 100 miles that separate them and illustrates the geographic limitations of LEED, even as the popularity of the green building rating platform has skyrocketed.

According to a study last year by institutional investment advisor RREEF, LEED buildings are found in 400 or so U.S. cities, but are "highly concentrated" in the nation's largest metro areas, such as New York, Atlanta and Los Angeles. By CoStar's tally, the 10 largest U.S. cities by population account for almost 10 percent of the more than 11,000 LEED-certified or registered projects to date, for an average of roughly 100 LEED projects per city. That would leave the remaining 350-plus cities with an average of only about 30 LEED projects.

The trend accelerates on a state-level, where two-thirds of LEED-certified building area falls within the 10 largest states, "despite having barely 40 percent of the nation's population," the RREEF study found.

LEED has been slower to penetrate small and mid-major markets because many of the factors driving demand, such as corporate tenancy and new construction, naturally favor larger markets. And although local green building regulation is more prevalent in smaller markets, a much greater amount of space is affected by mandates in the large markets.

Sacramento is about half the size of San Francisco by population. From there, the dots are not difficult to connect.

Aguer, who has more than 30 years under his belt in the Sacramento CRE brokerage market, says most of his big tenants there are regional firms, rather than the national or multi-national corporations that are under fire from clients and stakeholders to green their business practices -- and by extension, the large chunks of office space they tend to occupy.

"Perhaps the most powerful driver behind the move toward green development in the office sector is tenant demand," said a recent study by Prudential Real Estate Investors. "For some businesses, particularly large multinational companies, shareholder pressures have been a powerful catalyst in their newfound interest in greenhouse gas emissions. Because real estate accounts for a significant share of most companies' aggregate greenhouse gas emissions, green buildings offer an obvious and effective way for companies to ... demonstrate their commitment to the environment."

Also highlighting the corporate connection to green, roughly 80 percent of corporations now consider sustainability a "near-term" business issue and are willing to pay a premium to be green, said a November survey on sustainability trends in corporate real estate by Jones Lang LaSalle and CoreNet Global, a trade group for corporate real estate executives. "It's crystal clear to us that a focus on sustainability has become important to the Fortune 500 and similar companies around the world," Eric Bowles, vice president and director of research for CoreNet Global, stated when the findings were released.

In San Francisco, Julia Wilhelm, an associate director and LEED-Accredited Professional (LEED AP) with Studley, has delved into several California markets as she handles site selection statewide for conservation group The Nature Conservancy. "San Francisco is the farthest ahead of the green curve," she says, comparing it against other California cities. "On the landlord side, there are some very savvy and forward-thinking owners. In a holistic sense between tenants, landlords, and the design and construction communities, everyone seems to have some knowledge of green."

The presence of large corporate users in San Francisco -- which is preparing to extend green building regulation this summer to private sector development -- has created demand for green assets, while another large-market LEED bias, the abundance of new construction, has fostered competition and allowed the greening trend to grow.

According to The U.S. Green Building Council -- the Washington, DC-based nonprofit that administers LEED -- a solid majority of all LEED-certified projects to date have been certified under the LEED for New Construction (LEED-NC) platform. Larger markets with more construction activity have been natural LEED magnets, while LEED-NC opportunities have been severely limited in smaller markets. San Francisco had about 3.6 million square feet of

office space under construction in the first quarter of 2008, according to CoStar figures. By comparison, the Sacramento market trailed that number by more than a million square feet.

The stats aren't lost on Aguer, who doesn't have any green competition in Sacramento at the moment. "We're competing against non-LEED buildings downtown. When Gateway Tower is complete, it's going to be a real advantage," Aguer says of the LEED property, noting that it's renting at nearly identical rates to the other new buildings. "I'd much rather be in our position than theirs. The awareness is going to get there."

Of course, key to building that awareness in small markets is the arrival and success of LEED buildings. In that sense, Gateway Tower may be its own best friend. "If green buildings lease up rapidly like they have in other markets, that's going to raise awareness right away. The way to get people's attention is to have a successful project that makes money," Aguer said.

But not everyone considers a size disadvantage to be a green disadvantage. "The demand and the desire for sustainable design, whether its LEED or Energy Star, in the last six or eight months has shown up," says Dave Harrison, a vice president with development firm Opus Northwest and general manager of the firm's office in Kansas City, an office market almost identical in size to Sacramento.

With several sustainable projects in the works around Kansas City and in other Midwest cities, Harrison says he's impressed by green awareness across his markets. "Our clients are asking us to inform and educate them so they can make good decisions on the cost and benefit of all the green components," he says. " 'What does it cost? How do we get there?' If they're not asking those questions, we're pushing the envelope to make sure they're thinking about it.

"It's not a question of the size of the market," he says. "It's a mindset. It's what the consumers are looking for. The larger markets may have more velocity and more new buildings coming out, but as [smaller markets] see more new buildings and start looking at existing buildings, there's going to be a strong push for sustainability."