

*This article is sponsored by the
SOCIETY OF INDUSTRIAL AND OFFICE REALTORS® Foundation.
Enriching Our Community*

The SIOR Foundation's mission is to promote and support initiatives that expand, educate, and enrich the commercial real estate community. Established in 1962 to publish the industry's first graduate-level textbook on industrial real estate, the SIOR Foundation has maintained its dedication to expanding understanding of the commercial real estate industry.

The Green Train Has Left the Station



Steve Lewis is the president of Wordman, Inc., a marketing/public relations firm in Atlanta, Georgia. He served as editor of the National Real Estate Investor for eight years. He was also the real estate editor of Business Atlanta and the editorial director of the Real Estate Group of publications at Communications Channels Inc., which includes Southeast Real Estate News, Southwest Real Estate News, and Shopping Center World. His firm represents developers and contractors in the Atlanta area, and he continues to write freelance articles about the real estate industry.

By Steve Lewis

Note to SIORs: Go “Green” or Get Left Behind

A number of leading SIOR associate member firms—from developers to architects to engineers—were interviewed on the subject of Green development in real estate. These interviews yielded a universal, resounding message: When it comes to sustainable building, the train has already left the station.

The Growth of the “Green” Market—Here to Stay

The representatives of these SIOR Associate member firms added this sobering truth for SIORs: If you are not on board already, you'd better get started, or it could cost you business.

“This is definitely not a fad; I see it as a long-term trend,”



asserts **Michael Diepenbrock**, Regional Partner with Panattoni Development Co., an SIOR Developer

Associate firm headquartered in Sacramento, California. “Three years ago we looked at it as a competitive advantage—today we look at it as a mandate.”

“I’ve been around for awhile,”



says **Jack Rizzo**, Managing Director, Global Construction, for Denver-based ProLogis, an SIOR Developer

Associate firm that has developed 483 million square feet of industrial space in 105 markets across North America, Asia, and Europe. “During the ’70s when we had the

oil crisis and long gas lines, it was a fad at the time; this time it's here to stay. There are a number of dynamics now that were not in play before—more than \$90-a-barrel for oil, a global emphasis on environmental performance, and customers' goals and objectives. And our goal is to provide a conduit to our customers to achieve their goals."

Saving Energy and Money Makes Good Business Sense



"It's snow-balling," adds **Marc Markwell**, Partner-Reno, with DP Partners, an SIOR Developer Associate firm in Reno, Nevada. "There has been a lot of rhetoric about Green, but people see good common sense ideas as well as

doing the right thing. For example, it makes sense to use recycled materials."

What's more, he says, developers are learning that they can actually save money in the long term through energy-saving products. "Two to three years ago, some of these products would have been more expensive, but now prices are coming down as more developers use them—and that will continue to grow as more products come on line and we get more used to working with them," says Markwell.

Changing demographics also play a role, says



John R. Patelski, Executive Managing Director and President of A. Epstein and Sons International, Inc. (Epstein), an SIOR General Associate firm of architects, engineers, interior design, and construction managers for

institutional, commercial, and office facilities that is based in Chicago. "It's not only because of the market factors at play—the high cost of energy, for example—that is driving the mindset that we must reduce energy costs," he says. "It's also the changing demographic of the consumer base. Twenty- and 30 year-olds are beginning to demand a more environmentally sensitive group of products, and the generation behind them

will be even more demanding in the same way. [Green development] used to be led by some companies because it was the right thing to do; now, it's for that and for all the associated financial benefits."

Patelski adds that more and more owners are asking design teams to specify Green products, "whether it's flooring products, lighting fixtures, or plumbing fixtures."

And while Green development first became



popular in office construction, industrial development is starting to follow suit, says **Jeffrey Krusinski**, Business Development Manager of Krusinski Construction Company, an SIOR General Associate firm based in Oak

Brook, Illinois. "It has been very prevalent in the office market and also some healthcare and retail, and it is now making a shift into the industrial market as well—which is about half our volume," he says. "This focus on Green is a conscious effort on the part of owners and corporations, it is gaining momentum, and it is here to stay because it's driven by the end-user."

Clients Want Sustainable Energy but Mandatory Measures Are Coming



"We see it everywhere," says **Paul Merrill** of Clayco, an SIOR General Associate design/build firm based in St. Louis. "Maybe 25 percent of our clients don't know anything about it and we educate them on the benefits to the

project and building tenants; 50 percent are very

knowledgeable and request some measure of sustainability; and the other 25 percent don't see any benefit." However, the last group is definitely reducing over time. "What's more, he notes, "Our clients have customers of their own asking what they're doing about sustainability, so it's a bottom-up process."

In addition, says Merrill, "The biggest indications are code officials adopting Green building standards, starting to make it a mandatory measure. This is not only where public monies are involved, but also in private development—and that's big—requiring private developers' buildings to meet some level of sustainability."

Diepenbrock sees a similar trend. "Municipalities are either requiring it or incentivizing it," he says. "There are cities in this country today that require LEED (Leadership in Energy and Environmental Design) certification and others are expected to follow suit." (For more on LEED, the acknowledged standard of Green construction, see the box at the end of this article.)



"This is something that is real for our tenants, our customers, and also for developers going forward," adds **Pat Mascia**, Senior Vice President and business unit head for Duke Realty Corp., an SIOR Developer Associate firm in Minnesota. "We are in a bit of a transitional

period, where two or three years ago nobody had thought too much about Green design, and now it's becoming much more important."



"I think this change is permanent—for a couple of reasons," says **D. Andrew Forberg, Jr.**, director of real estate for LandBank Properties, LLC, an SIOR Developer Associate firm located in Denver, Colorado. "First, it helps lower operating costs today and into the future while providing a better tenant environment, and [second,] from the ownership standpoint it gives us a real competitive edge in the marketplace."

The Sustainable Marketplace—Office Specs More Economical than Industrial

Two or three years ago, experts agree, there was a significant premium paid for buying sustainable products, which made it economically feasible to build Green buildings only when the client demanded it. Now, however, that premium has either shrunk or disappeared in the office market, opening up the possibility of more speculative Green buildings. In warehousing, they say, it remains tougher to make the numbers work.

"Typically in an industrial development there is much more site and building area, so it skews some of those LEED dollars associated with getting LEED points," Krusinski says. "A lot of the products, techniques, and practices utilized to gain several points are similar to conventional or non-LEED-certified buildings, but when you have half a million square feet or greater of building area, certain credits are more difficult or costly to achieve." So, for example, he explains that, if you pursue a LEED point by moving from a standard EPDM ballasted roof to a white TPO roof, which is necessary for greater reflectivity, the cost is exponentially greater than a

TPO roof for a multi-story office building, which may have 25,000 to 30,000 square feet of roof area. Krusinski says he is seeing a premium of as much as eight to 10 percent for an industrial building. “This is on a specialized build-to-suit for a Fortune 20 company, and they are demanding it be LEED certified,” he says.

“In terms of premiums, you are basically talking between one to three percent of construction cost,” says Rizzo of ProLogis. “The payback, particularly on lighting, is in the three- to four-year time frame, which is within the kind of horizon we as a development company look for. If there is a 15- or 20-year payback, it’s difficult to justify, but we find it is possible, even on spec buildings.”

Cost-justifying a spec Green office building “is a no-brainer if you want to get to basic LEED certification, which is relatively easy,” says Diepenbrock of Panattoni. “The premium is not that great, and in most cases you can forecast an energy savings that offsets it.”

“We build a lot of types of buildings—small financial institutions, office buildings, manufacturing projects, and distribution warehouses,” says Patelski. “[The premium] depends on the building and the starting point. When you ask what it takes to make an office building Green, we build high quality anyway, so our premium is .5 to 1.5 percent. When you build outside of an urban area where you can pick ‘low-hanging’ fruit, LEED credits can represent a premium of 3.5 percent.” Industrial property, he concedes, “is tougher. There is a premium, but the path to LEED certification is not as clear.” We have found the premium is less than five percent (trending down) of the initial building cost. Don’t forget about the savings associated with the reduced operating expense.

“We just finished Norman Point II, a 322,000-square-foot spec office in Bloomington, Minnesota, which is LEED core and shell certified,” reports Mascia. “We spent extra money, but we were able to underwrite that project with rents that were within the net rents achieved in the sub-market we were in.” These extra costs, he explains, are in part underwritten because the company has LEED Accredited Professionals on staff.

In Landbank’s Norwood Venture I, a Brownfield project in Cincinnati, the 100,000-square-foot second phase will be all office, says Forberg. “First of all, it makes sense for a Brownfield developer to go Green; it gives better acceptance in the community. Plus, it does lower our operating costs such as electricity and gas lights, and the costs of doing LEED buildings will be coming down over the years ahead; it will be substantially less.”

Forberg estimates the retrofit will have a premium “anywhere from two to five percent.” However, he adds, “It will attract tenants to the building who would not otherwise have considered it—government tenants, as well as companies who want to occupy Green spaces. Rents are more competitive, and it is easier to fill your building.”

Several developers said they find they can avoid onerously high costs in their Green building by focusing on low-hanging fruit to meet LEED requirements.

“We always try to grab at least the ‘low-hanging fruit,’” says Mascia. “We use recycled materials, and in terms of location we do anything we can to gain points for sustainability. Then [we] try

to make sensible decisions regarding HVAC, window systems, or overall architecture, and [we] make sure we respond to the needs of the market and tenants going forward.”

Client Must-Haves: Knowledgeable and Accredited Brokers

Experts agree that, as tenant demand for sustainability grows, SIORs will find themselves at a decided disadvantage if they are not up on the latest developments.

“You need to be speaking the language of LEED today and out into the future more and more,” says Forberg. He says his firm does a lot of work with CB Richard Ellis, in part because they have an initiative focused on LEED certification. “In addition, you can refer to a broker’s LEED CoStar listing for LEED-certified buildings,” he explains. “If you are a broker looking for a Green building for a tenant, that information is right there.” (SIOR maintains and updates quarterly, a listing of LEED Registered and Certified Buildings, courtesy of the U.S. Green Building Council. Check it out on www.sior.com. Click on Site Map, then

look under Resources for LEED Information and a list of LEED Industrial and Commercial Properties.)

LEED Accredited Professionals

What about LEED accreditation for SIORs?

“Perhaps for some brokerage companies that have tenant rep services, it could be very advisable for them to look into it,” Forberg observes.

“We do have a lot of contact with third-party brokers’ rep tenants and list some buildings with them,” says Mascia. “The key element is to become educated and understand what the tenant needs as well as what the landlord is delivering. There are all sorts of things you can do to get LEED points and some might be more important than others for that particular customer or client.” If he were listing a Green building, Mascia continues, “It would make a difference how conversant the broker was.”

In terms of LEED accreditation, he says, “Given where things are going, it is one of those things that might look good on a résumé—a LEED Accredited Professional.”

It also depends on where brokers tend to spend most of their time, Mascia adds. “You see a lot of companies on build-to-suits going for certain high [LEED] levels; if you work with that type of company it will be more important than if you are just doing a lot of work in the multi-tenant arena.”

“We would definitely do business with a Green-knowledgeable broker,” says Merrill of Clayco. “There are certain buzzwords people like to hear. I’m an engineer, so I do a lot of above-ceiling or below-floor work, but there are higher points for things like low-flow sinks or waterless urinals; any broker knowledgeable on those attributes is a blessing.”

“It’s absolutely a good selling point for a broker,” says Krusinski. “If you’re not in this ballgame, you’re behind the curve. It could certainly be very beneficial for brokers; they could probably create a little niche for themselves.”

“I think it could possibly make a broker more attractive to a client and a great way for brokers to differentiate themselves,” says

Patelski of Epstein. “It would demonstrate in real time that they are serious about the commitment required to be an integral part of the Green movement when they are literally walking the walk and talking the talk.”

“I think, from our standpoint, the brokerage community has been pretty sincere and impressive,” says Markwell of DP Partners. “I get calls from brokers asking to see our program or our building, asking what they can do.” These brokers are so proactive, he explains, “because their client is perhaps asking them questions about the kind of products that are available.”

“Today,” he continues, “being knowledgeable about Green buildings and products is part of the overall picture in picking a broker. A broker who is well versed in this will be well versed in all the issues out there.” Markwell says he has even had brokers recommend Green products to him. “This helps us all,” he says.

Rizzo adds that brokers “are coming up the curve real fast. We are now starting to see more requests out of the brokerage community for an approach that we could take on a build-to-suit; for instance, what the potential costs would be for a Green building. That has picked up dramatically in the last 12 to 18 months.”

“It’s always good to be working with companies that understand and appreciate the process and what we are trying to achieve,” adds Diepenbrock. “But I would say the whole industry still has a lot to learn. Most people are familiar with some broad concepts, but a lot of people don’t truly understand what LEED certification is [or] that there are different levels and various types of certification. And that goes for developers as well.” He says that Panattoni is on a “huge” education push, noting, “Most of our development

Exactly what is the corporate tenant looking for in a Green building? What types of products and amenities make a Green building more attractive as a multi-tenant facility? In our next issue, we will continue our look at Green building by exploring several projects in depth, examining the types of products and strategies used, and the kinds of building characteristics today’s tenants are demanding.

managers are going to be required to become LEED Accredited Professionals.”

Would he recommend that course for SIORs? “I could see the benefit for the SIOR whose business involved largely or exclusively tenant representation, because that is a huge driver now in corporate build-to-suits,” he says. “We see the selection processes for consultants, which includes brokers, being driven by the perception of that considerable expertise in Green buildings. If I were a broker who wanted to represent corporate America, I would want to have great literacy and credibility in Green buildings.”

LEED at a Glance

LEED (Leadership in Energy and Environmental Design), according to the United States Green Building Council (usgbc.org), is “the nationally accepted benchmark for the design, construction, and operation of high performance Green buildings.” It provides building owners and operators tools that will “have an immediate and measurable impact on their buildings’ performance.” LEED promotes “a whole-building approach” to sustainability, recognizing performance in five key areas:

- Sustainable site development;
- Water savings;
- Energy efficiency;
- Materials selection; and
- Indoor environmental quality.

LEED incorporates a number of rating systems, each with its own checklist.

They include:

- New construction;
- Existing buildings;
- Commercial interiors;
- Core & shell;
- Schools;
- Retail;
- Healthcare;
- Homes; and
- Neighborhood development.

Within each rating system are a number of components, each given a point value. Based on a project’s point total, it is given a LEED certification in one of four levels—Certified, Silver, Gold, or Platinum (highest).