

Developing Green



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By Steve Bergsman

"Green," or environmental sustainability, has been part of real estate vernacular for over a decade, yet commercial property markets are still a long way from achieving sustainability as a prevalent trend line.

Presently, good intentions exist. There are a number of successful Green developments taking place as large corporations look to become "Green Conscious" and environmentally considerate. In commercial real estate, however, roadblocks abound—from millions of square feet of legacy buildings to the lingering hangover from the Great Recession, where caution means opting for lower rental rates versus tenancing a more expensive Green building.

Paul Waters, SIOR, CCIM, CRE, FRICS, an executive vice president with NAI Global in New York, sums up the cross-currents as a kind of balancing act. To the positive, he lists the fact that tenants generally rate Green buildings superior to non-Green buildings, and big, international companies are requesting Green spaces to please shareholders, analysts, and Wall Street.

On the other side of the ledger, he mentions off two inhibitors. First, most assets are dated, and making improvements on an older building might not be cost effective. Second, small entrepreneurial companies focus mostly on cost of space.

In New York, as an example, a majority of the millions of square feet of office space was constructed before the time of Green. Indeed, says Waters, there's not enough Green buildings for everyone who wants one.

How To Find the Balance Between Green Building and Economic Sense

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**Geoffrey Kasselmann, SIOR,
LEED AP**



**George McCutchen, SIOR,
CCIM**



Gary Joel Schacker, SIOR



**Paul Waters, SIOR, CCIM,
CRE, FRICS**

Most landlords can do the simple things such as changing lighting fixtures, but to retrofit the water system, re-install irrigation, or put solar panels on the roof, this has become more complex. Waters says, “Going Green is not happening for a trifecta of reasons: cost, zoning, and the rehabbing of obsolete buildings, all of which won’t get the landlord a return on his or her investment.”

Things are no less complex in the suburbs where most tenants are smaller, private companies that want to keep costs to a minimum. “For an entrepreneur struggling to grow a new company,” Waters says, “his first thought probably is not going to be Green.”

Gary Joel Schacker, SIOR, a principal with United Realty of Jericho, NY, works the Long Island suburbs of the Big Apple. His on the ground experi-

ence illustrates the mixed blessings of being Green in the burbs.

United Realty has an associate development firm called Triangle Properties, which constructed a LEED Silver, mixed-use property in the town of Hauppauge near the intersection of two important roadways. The structure totals 35,000 square feet, with a central office building and two wings of retail. National tenants such as Chipotle, Duncan Donuts, and FedEx have almost completely leased the retail space, but office still has about a 70 percent vacancy.

The Hauppauge building is powered by solar and uses renewable energy credits, representing renewable resources associated with alternative power production such as wind turbines.

“In our building, we have solar energy, which runs the office space and about 30 percent of the power for

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the common areas of the shopping center,” Schacker explains. “What we’ve also done is purchase wind energy RECs that allow us to garner LEED points and be 100 percent Green,” says Schacker.

On Long Island, a major New York suburb, there are not a lot of investment-grade LEED properties. Even so, Schacker adds, “it only makes sense to build LEED if you do it right,” which means taking advantage of governmental rebates and credits.

Those rebates and credits are needed because in the New York’s suburbs a landlord still can’t get a rent premium for being Green. “It’s very difficult to quantify certain things,” Schacker notes. “Our building has ultra-high frequency HVAC equipment so the tenants get ultra-clean air. How do you quantify the productivity associated with that?”

Schacker reluctantly asserts, “No one is coming to our property with the number one motivation that this is a LEED building. It’s a nice feature—it’s gravy—and if a tenant had to choose between two comparable properties they would pick Green.”

If one hopscoches around the country, the market penetration by sustainable initiatives can be hit or miss whether one is in Indiana, California, Idaho, or South Carolina. Nevertheless, some SIOR members are becoming a lot more optimistic about the environmental movement, noting individual success stories in their home towns.

Ronnie Wenzler, SIOR, a senior managing director and principal with Cassidy Turley in Brentwood, TN, talks of a successful LEED project in Nashville that was initially opened during the heart of the Great Recession.

The Brentwood office of Cassidy Turley partnered with Holladay Properties Inc. out of South Bend, IN, and together they unveiled the first multi-tenant, LEED-certified, speculative industrial development in the region—AmeriPlex at Elm Hill—a 250,000 square flex-building space in Nashville.

“The interesting thing about the AmeriPlex project,” Wenzler explains, “is that the first phase was brought online in 2009, a time when there was very little speculative development in the Nashville area.”

Of the first five leases in the first building, Wenzler asserts, “four of those cases came about because we had incorporated Green building concepts. We did things that impacted the building envelope and energy efficiency directly, thus affecting operating costs. Those things proved interesting for the corporate clients we have.”

He explains, “If I bring you into our building on a hot summer day in Nashville, you will notice that we are cooler than the competition.”

We use a white copolymer alloy roofing, which reduces heat gain in the building. We use native landscaping and capture rainwater for irrigation. All this translates into lower rents and lower operating expenses in the long term.”

A second phase to the AmeriPlex project was added in 2011 and a third phase is expected to start by the end of the year or early next year. “This was an in-fill project in an area where we felt there would be demand and we did get a premium for the space,” Wenzler says. “Green affected the desirability and the types of tenants we saw.”

Still, Wenzler says, developers considering Green need to be cautious. “There are some incremental costs to adding Green so you want to apply it thoughtfully. In addition, you don’t want to slug it out in a high vacancy market trying to sell the fact that you have Green.”

Down in Columbia, SC, **George McCutchen, SIOR, CCIM**, reports that about 80 percent of new projects have some LEED qualifications.



It’s surprising how quickly it has caught on in this tough economy,” he reports. “People are interested because you save money on ongoing maintenance costs as well as the inherent profitability of Green features.” He adds, “A lot of big corporations are conscious of being Green, which is being driven by stockholders, and corporate policy,” McCutchen says. “Also, tenants are now very conscious that if operating costs on a gross lease are lower for the landlord, those savings should get passed down to the tenant.”

Two of the benefits of being Green, McCutchen asserts, are the potential for better occupancy for the landlord and cost savings to the tenant.

McCutchen is one of only two LEED certified brokers in South Carolina. The other works in the cubbyhole nearby in the same office. McCutchen’s has held his certification for only a year. So far it hasn’t brought in a lot of new business, but he sees it will in the future. As he observes, “Companies still want a good rate, but they also want to be environmentally friendly.” As an example, McCutchen mentions a new office building constructed on Main Street in Columbia near the capital building. “One tenant took a third of the building and made sure the space was LEED Gold,” he says. “It was a nice thing to see in this economy because it does cost a little extra initially, but you will get your money back between four and seven years. After that you are in the bonus with extra savings.”

McCutchen isn’t the only SIOR who believes Green is the future for office and industrial brokers. **Geoffrey Kasselmann, SIOR, LEED AP**, and president and CEO of Op2mize LLC in Des Plaines, IL, has gone full bore into the new world of sustainability. His company now requires every licensed broker to either have a LEED credential or achieve it within the first 90 days of being employed.

“We are aiming to be the first brokerage in the Chicago area, or anywhere else, where every licensed practitioner is LEED-credentialed. We believe Green belongs in every conversation with every client from now on. Sustainability shouldn’t be siphoned off to one person in the company because that is a bottleneck business model—all brokers need to be experts.”

This change is not due to some future pie-in-the-sky expectations. Kasselmann believes Green expertise brings in business. He gives this example: “I was pitching a warehouse client on sustainable services and he thought all he wanted was a lighting retrofit, which is the lowest hanging fruit and where the preponderance of savings will be,” Kasselmann recounts. “So, I talked to them about all the things that make up energy efficiency of operations. They were surprised to learn there were accounting opportunities that they wouldn’t have otherwise known to pursue, such as accelerated depreciation on qualifying equipment.”

In addition, Kasselmann asked them to consider whether they would be able to make an educated decision between multiple lighting vendors and whether they could determine if the proposals were comparable. Kasselmann pointed out that sometimes vendors take advantage of unsuspecting users by winning the beauty contest only

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to add on extra costs because they did not identify what they left out of the proposal.

"I started going through the whole process with my clients," he continues. "I'd ask them: 'How do you know you are getting the savings you endeavor to get? Do you want network lighting that you can control from anywhere or do you just want reduced lighting costs.'"

Kasselmann adds, "They had interviewed three different vendors and were pretty sure they didn't need me or want me. We opened their eyes to a new way of thinking and left them begging for a proposal from me."

Kasselmann holds two general philosophies about sustainability. First, it's extremely valuable to all commercial real estate parties, but if it is not going to provide a meaningful, measurable impact on total cost of occupancy, or, as owners/occupiers, if it is not going to impact your total cost of ownership, than his firm probably wouldn't recommend clients to do it.

On the other hand, Kasselmann adds, "If you want different results, you go with a company focused on Green. If you want the same old results, there are plenty of other companies that can do that." ☞

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