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The green movement is going mainstream: USGBC's LEED adopted as industry-wide standard

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With more and more large corporations adopting policies that are friendly to the environment (and public relations), the green movement has gone mainstream. As "going green" becomes more common, commercial real estate is taking a leadership role in transforming industry practice. Few industries have as great an opportunity, and a responsibility, to make an impact. Currently, the U.S. Department of Energy said that building operations account for 40% of total energy use and 38% of carbon dioxide emissions in the U.S. There is a lot of room to improve.

So, no one is disputing that building and operating more cleanly is the right thing to do. But is it good for business? Increasingly, the answer is yes. Premier companies will always demand top amenities and high-end finishing. Now they are often demanding a green space as well. Along with the intangibles of using such space, these companies also reap the benefits of higher air quality and more natural light. Commercial real estate professionals are becoming prepared to meet this demand. Systems are already in place to guide designers and property managers towards greener operations. Most notably, the U.S. Green Building Council's (USGBC) Leadership in Energy and Environmental Design (LEED) has been adopted as an industry-wide standard.

There are supporters and detractors to LEED's current incarnation, but simply having a standard has its advantages. LEED allows appraisers and clients to make apple to apple comparisons between spaces. Once a difference has been measured, a price difference can be established. Like any other premium service, this designation should carry a premium price. With all of the varying levels of certification and choices for how to conserve, the challenge is defining what this market premium is.

The Appraisal Institute (AI) will continue to help industry professionals to meet that challenge. With few comparable LEED projects in many markets, having a national network of appraisers can be particularly helpful. The AI is there to help facilitate these relationships. The other resource needed to deal with new aspects of the industry is education. Currently An AI seminar is in the works to guide professionals in LEED building valuations.

One of the perennial concerns is the additional cost of building to LEED standards. Proponents of LEED claim that meeting its standards will only add a few percentage points to the cost. In fact, a 2003 study by the California Sustainable Building Task Force pegs the increase in costs at just 1% for certified level buildings. The soft costs associated with building to LEED standards also decrease as a firm becomes more experienced with the process. Still, many in the industry seem unconvinced. Premium features usually do cost more to build, the difference here is the operational savings. Estimates by the USGBC put savings as high as 30% on energy consumption, 30% to 50% on water use, 50% on employee waste costs and up to 90% savings on construction waste cost. These savings will have a direct effect on the bottom line once the building becomes operational.

The additional investment is often more than returned within just a few years of operations. UBS recently completed a study that found that REITs invested in green building will soon begin to realize savings. According to the study, these attractive options are being pursued by 41% of REITs currently with an additional 27% planning to pursue green options in the near future. Not only does the bottom line improve, but investors are attracted to the aspects of social responsibility, according to CoStar's Randy Drummer.

The invisible hand of the market is not the only player in this scenario. Many cities are not leaving the choice of going green up to developers. Earlier this year Boston required all new buildings over 50,000 s/f to meet green standards. In addition to its dictates, the government in many cities and on state and federal levels is offering tax incentives to developers who "go green."

LEED standards are still too new to have concrete evidence of increased sales value. However, all signs suggest that meeting green standards in your buildings will keep more green in your pocket. Developers, investors and lenders will need competent, knowledgeable appraisers to capture the added value of green operations. The best-in-class professionals which are well trained and educated from the Appraisal Institute can do just that.

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