

Title: Developers discover efficiency can be a new way to market

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Rising energy costs, competition for tenants and potentially higher profits are driving an increasing number of commercial real-estate developers to go green.

They're making big and small changes, from installing energy-efficient light bulbs, dual-flush toilets and automatic light sensors in buildings to using recycled materials during construction.

Such steps can cost more money up front, especially if a developer or building tenant opts to seek certification under the Leadership in Energy and Environmental Design rating system.

The tiered program, run by the Washington, D.C. non-profit U.S. Green Building Council, awards points for managing construction waste, reducing water consumption, using alternative energy sources and other eco-friendly steps.

Experts in commercial real estate say interest in LEED and other certification programs will intensify as the price of crude oil continues to climb and businesses cut operating expenses. Plus, they say, energy efficiency provides landlords with a fresh marketing angle.

Studies show that green buildings, and in particular those that are LEED-certified or meet the Environmental Protection Agency's Energy Star guidelines, have lower vacancy rates and command higher rental rates than their non-certified counterparts, developers and brokers say the jury's still out about whether extra costs associated with building green will result in those same benefits locally.

"It's hard to quantify the return on investment," said David Krumwiede, executive vice president in the Phoenix office of Lincoln Property Co.

In Tempe, the company developed in 2005 the ASU Fulton Center, which is certified at the lowest of the four LEED levels.

Last year, Lincoln completed the new headquarters for the Arizona Game and Fish

Department, a building which meets requirements for LEED Gold certification.

Corporate America is another force behind the green building movement. More companies are adopting corporate sustainability policies aimed at reducing their carbon footprint, with some making commitments to buy or lease only LEED-certified real estate.

LEED certification

Other green building rating systems exist, but LEED enjoys the greatest industry recognition. That system has four rating levels: Certified, Silver, Gold and Platinum.

About 1,500 buildings have obtained LEED certification since the Green Building Council started the program in 2000.

Separate programs exist for new construction, existing buildings, commercial interiors and core and shell buildings.

In Arizona, 33 properties are currently LEED-certified, the majority of which are public buildings or offices built for specific businesses.

That pales in comparison with California, which boasts the highest number of LEED-certified projects in the country with 181 properties. Pennsylvania has 92 buildings; Washington state 90; Oregon, 71 and Massachusetts, 68.

Developers say LEED certification can increase a project's cost 2 percent to 7 percent, or more, depending on building size and scope of certification.

Still, research conducted by the Green Building Council suggests that meeting LEED standards can result in an energy savings of 30 percent to 50 percent per year.

"Green buildings generate about 3.5 percent higher occupancy rates and 3 percent higher rent rates than conventional buildings," council spokeswoman Ashley Katz said. "The value of the building itself is increased by 7.5 percent."

A study released in March by real-estate tracker CoStar Group showed LEED buildings had rents that were \$11.33 higher per square foot than non-certified buildings similar in size, location and age. The study stated, too, that LEED buildings sold for \$171 per square foot more than non-certified counterparts. It did not say that LEED ratings were

the direct reason for higher prices.

Some local developers and brokers question the wide differences but say they certainly see value in green-building techniques and certification programs because of energy savings.

Wait and see

San Diego-based developer Lee Chesnut is waiting to see whether the additional costs he invested in building Papago Gateway Center in Tempe will result in higher occupancy.

His company, Chesnut Properties LLC, completed the 262,000-square-foot office building at the northwestern corner of Mill Avenue and Washington Street earlier this year. To date it has one tenant, First Solar Inc., which is leasing 36,000 square feet of the six-story building.

Chesnut has registered the building with the U.S. Green Building Council to become LEED certified. He said he anticipates getting Gold level, but added he has yet to sign leases for the rest of the space.

"I look at the building from the standpoint of how to deliver the building to the market - and to the environment - in the healthiest possible manner," he said.

Mark Stratz, a broker with Grubb & Ellis/BRE Commercial LLC who is helping market the building, said that the asking rent for office space is about \$34 per square foot and \$20 per square foot for lab space.

Rates are in line with, if not lower than, other new Class A office buildings in the Valley.

Chesnut said he would have taken many of the same steps he took to meet LEED certification on the Papago project anyway.

The building features a louver system that spans the height of its southern wall. A computer controls aluminum slats, moving them in response to the amount of sunlight it senses.

To date, Chesnut said, he has spent about \$54 million on the project. Still, most of its interior has not been completed. By the time that is finished, he estimates the total cost to

be \$80 million.

Interest rising

Locally, interest in green properties has risen in recent years, according to several developers and real-estate brokers. But while more tenants are inquiring about energy-efficient options, none has gone so far as to rule out non LEED-certified projects.

"We do a lot of law-firm work," said Chuck Nixon, senior vice president at the Phoenix office of CB Richard Ellis Inc. "We have not had a law firm, or really any corporate entities, say, 'If the building doesn't have this level of certification, we're not going there.'"

LEED certification is a way to attract attention, however. It's one reason developers of competing high-rises in Phoenix are trying to get certification.

Red Development LLC, the Scottsdale developer behind the CityScape mixed-use project, hopes to obtain LEED Silver certification for the 27-story office tower started last fall at Central Avenue and Washington Street.

"From a marketing perspective it's a positive," said Keith Earnest, vice president of development.

Law firm Squire, Sanders & Dempsey LLP considered Red's LEED plans before signing a lease for 80,000 square feet.

"I wouldn't say it was a deciding factor," said Robert Matia, managing partner of the firm's Phoenix office. "We need to redesign our core space. That's really our reason for moving."

Located in nearby Two Renaissance Square, the firm plans to apply for certification through the LEED for Commercial Interiors program. That move could increase the cost of its tenant improvements by as much as \$500,000, Matia said.

Chicago-based Mesirov Financial Real Estate Inc. had planned to obtain LEED certification for its 26-story One Central Park East office tower under construction at the northeastern corner of Central Avenue and Van Buren Street. Those plans are in jeopardy, managing director Andrew Conlin said, because of changes the U.S. Green Building

Council has made to certification prerequisites.

"Having LEED certification would certainly be desirable and helpful, but even without it, we have pursued energy efficiency to the greatest extent possible," Conlin said.

Developers are using "fritted" glass, which has dots that help reduce the amount of sun that penetrates. The building's sides will contain fins that control sunlight.

Lack of product

Locally, most LEED-certified properties are public buildings or projects built for specific businesses, not multitenant spaces.

Developer Liberty Property Trust put up a 138,000-square-foot building in Scottsdale for financial firm Vanguard Group Inc. that is certified as a LEED Gold property.

"They're better buildings for our (tenants) to be in, therefore, we believe it's more efficient for them, which will be more profitable for us," said John DiVall, senior vice president in the company's Phoenix office.

Jonathan Tratt, principal of Phoenix industrial development firm Tratt Properties LLC, said that he is planning to apply for LEED certification on a 375,000-square-foot warehouse.

"I think in time people will potentially do themselves a disservice from a development standpoint if they are not green-friendly," he said.