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Developers Are Embracing LEED, And Tenants Are Responding

By Greg Zimmerman, Executive Editor

Build it green, and not only will they come, they'll probably stay for awhile too. That's the message developers are receiving loud and clear from tenants these days, and as a result, developers are redoubling their efforts to build LEED for Core and Shell (LEED-CS)-certified office space.

A study by the CoStar Group released earlier this year showed that LEED-certified buildings have a 3.8 percent higher occupancy rate than traditional space. That may not seem like much, but in a slowing economy, every percentage point is huge. And when developers can lock those tenants into long-term leases — something tenants are more willing to consider in a green building — there may be a little more insulation against economic peaks and valleys.

What's more, developers are learning that achieving a LEED-CS certification is not nearly as difficult, expensive or risky as they may have thought.

In the past, building green had been perceived to add further to a developer's risk because it introduced another level of complexity into a building, required new or unproven technologies, cost more initially, and was generally beyond the scope of what developers were used to.

But now, because of the way green buildings are attracting tenants, developers are viewing LEED-CS as a way to actually minimize risk, and LEED-CS is quickly becoming part of the formula for profitable speculative development.

Tenant Attraction

So what is it exactly about a LEED-CS building that attracts tenants?

"Tenants are using buildings as a way to recruit and retain the best people," says Jerry Lea, senior vice president, conceptual construction for Hines. "It's important for tenants to see that LEED plaque because it's proof the building is green."

Sometimes tenants may just be interested in LEED in general. Other times it may be specific characteristics of LEED-certified buildings. Clarke Miller, an assistant project manager for Hines, says he was talking with a prestigious California Bay Area law firm about leasing space in one of Hines' environmentally responsible office buildings. Miller says he explained the environmental benefits and how, if they signed a triple-net lease, they would save on energy costs because of the building's efficient systems.

Then he started talking about the impact on people. "They clearly perked up when I started talking about the productivity gains possible in a green building," says Miller.

Also, the facility is located within a mile of a train station, and Miller offered to arrange for shuttles eight times per day to accommodate the firm's commuters. "Public transportation was clearly a hot button issue with them," says Miller.

Though proximity to public transportation and other site-selection criteria can help a developer gain points toward LEED-CS certification, the biggest opportunity for developers — arguably the biggest hot button issue for many tenants — is energy efficiency. Historically, developers had been reluctant to be energy efficient because, if a tenant signs a triple-net lease, the developer sees very little benefit from the energy cost savings. Conversely, a tenant that signed a gross lease wouldn't care how efficient a building was because the tenant never saw the savings. Now, that's changing.

“There isn't a lease out there that isn't better off for a tenant in an energy-efficient building,” says Donald Oldmixon, first vice president and manager of real estate and construction for Hobbs Brook Management LLC. “Whether it's passed through in cheaper rent or they actually see the savings themselves, the tenant benefits.”

For developers, as the cost of energy soars, efficiency is a nice selling point. “For the most part, our leases are triple-net leases,” says Miller. “So it's important to be energy efficient because it's a competitive advantage.”

With the exception of lighting, the fact that tenants don't have much control over energy use is what makes an energy-efficient core and shell attractive. And developers can further that advantage by helping tenants implement sustainable strategies in built-out space. LEED-CS works in tandem with LEED for Commercial Interiors (LEED-CI), a rating system that guides green tenant improvement. In fact, developers get a LEED-CS point for producing a guide to show tenants how best to interface with the green core-and-shell elements already in place.

“Tenants ask us, ‘Now that we're in a green building, how do we green our own space?’” says Mark Robinson, a sustainability manager with Hines. “LEED-CI is a natural follow-up to leasing in a LEED-CS building.”

Randy Swearingen agrees. “Most tenants are attracted to LEED, but they need a little hand-holding to get them to see what we're trying to accomplish,” says Swearingen, vice president of office development for Aardex, Inc. Aardex developed the \$37 million, 186,000-square-foot Signature Centre in Golden, Colo. The building is certified at the Platinum level, one of only six U.S. buildings to reach the highest level of LEED-CS certification.

At the Signature Centre which has lots of exterior glass and an underfloor air distribution system, Swearingen says he's worked with tenants to design their spaces so that individual offices are pushed to the interior, providing the tenant's employees with lots of daylight and helping to maximize the efficiency of the underfloor air system.

“While a green core and shell is important for tenants, it's really the interior space that has the most impact on worker productivity and satisfaction,” says Miller.

Although most tenants that sign leases in LEED-CS space are eager to make sustainability part of their own space, there are some for whom just being in a LEED-CS building is enough. So can developers force tenants' hands?

“In general, if you're doing a Class A building and your tenants are paying Class A rent, the tenants will tell the developer, ‘You can't tell me what to do,’” says Lea, who chaired the committee that developed LEED-CS. “It's a matter of principle. Tenants generally will not allow requirements in their leases.”

But that doesn't mean that developers can't strongly suggest ideas. For instance, Aardex developed a book titled *User Effective Buildings*, which explains to tenants how they'll benefit from green strategies in their own space.

And Aardex is "living inside the guinea pig," as Swearingen puts it, by certifying its own space in the building with LEED-CI at the Platinum level.

CS on the Rise

LEED-CS was first released as a pilot in 2003. A second version came out in July 2006, and USGBC added a few updates in June 2007. Currently there are 105 certified LEED-CS projects, but there are more than 1,300 registered — which means they've signed up to complete the process but haven't had their official certification review yet.

One of the reasons for the quick growth in the number of LEED-CS certifications is that developers, especially those that build smart Class A buildings, have discovered that their standard operating procedures put them in range of LEED certification. Getting LEED certification may be a matter of determining whether to make a few strategic upgrades, making sure pre-requisites (like performing commissioning, being 14 percent more energy efficient than ASHRAE 90.1-2004, and achieving minimum IAQ standards) are met, and then creating the documentation for the formal certification review.

"We approach every job the same way," says Lea. "We look at the market and the potential tenants and try to design buildings that will appeal to those markets. Almost every tenant cares about energy, productivity and hiring and retaining the best people. If we do those things that make a building tenant-focused, at the end of the day, our building will be LEED certified."

An oft-repeated refrain of green building advocates is that good design and green design are essentially synonymous. That means many developers have standard programs that are very close to qualifying for LEED-CS. Julia Kennedy, vice president of H Street Ventures, says that midway through the development of the 220,000-square foot Atlantic Corporate Park in Sterling, Va., the pension fund bankrolling the building asked what it would take to stop and go green. Kennedy says the project teams reviewed plans and determined that if they continued with the original design — which included green strategies like a reflective roof and energy efficient HVAC — the building could probably hit Silver certification.

Instead, the team decided to set a goal of Gold certification. Working entirely through change orders, they upgraded to better windows and lighting, designed a more water-efficient landscape and an irrigation system that includes rain sensors, and added low-flow and dual-flush fixtures. The extra cost, which included building commissioning, better energy models and the LEED registration fees, was about \$500,000, or 1 percent of the \$50 million facility.

"For us, the biggest cost was the consulting fees," says Kennedy. "This was our first LEED building, but we're all now better because of it."

Sean Cahill, vice president of development for Louis Dreyfus Property Group, tells a similar story. On the 300,000-square-foot, LEED Gold-certified building at 1101 New York Ave in Washington, D.C., Cahill says that after the initial design, the project team did a preliminary LEED scorecard and discovered they were in the Certified range, almost to Silver. The building already included floor-to-ceiling glass and high-end, efficient

mechanicals. Cahill says that by adding a green roof, a cistern for stormwater capture, and a few other green upgrades, the building made it to Gold.

“It’s not as difficult as most people think and the cost premium isn’t great,” says Cahill. “Savvy developers are figuring this out. I’m an architect by trade, and I learned to use the best technology available. Green seems like it’s just that.” Besides, says Cahill, a new directive mandates LEED Silver for government tenants, so if developers want government tenants, Silver certification is the minimum.

Skeptics?

Green building advocates say this phenomenon of developers finding themselves in the LEED range by fitting their standard operating procedure into the framework of LEED’s requirements is extremely positive. It’s helped catalyze the growth of LEED-CS and increased market recognition.

But the phenomenon has some skeptics wondering if LEED-CS certification is too easy. Does it have the environmental rigor of other LEED rating systems, especially LEED for New Construction (LEED-NC)?

Lea argues that LEED-CS is a stringent standard and should be held in the same environmental esteem as LEED-NC. He says that the sole reason LEED-CS exists is because LEED-NC didn’t work for speculative office buildings. “There is too much developers can’t control,” he says. “In order to be certified, yes, you have to build a sustainable building.”

Another source of skepticism stems from an opportunity that USGBC offers only to buildings registered for LEED-CS: Developers can have USGBC pre-certify their designs. After developers register their projects — essentially setting a goal to go through the entire LEED-CS certification process — they can pay a flat \$3,500 fee (\$2,500 for USGBC members) and send in design plans to be reviewed for pre-certification. According to USGBC, to be pre-certified, plans must “reflect a studied and realistic set of project goals and intentions” which “form the basis for an award of pre-certification at the project’s expected LEED-CS certification level.”

The idea behind pre-certification is that developers can begin marketing their facilities with the LEED name while the building is being built, more easily attracting tenants. The problem is that many brokers, and the marketing and public relations folks who are issuing press releases about these pre-certified buildings, may not understand the difference between actual LEED-CS certification and pre-certification.

This leads to confusion about what a building has actually accomplished and how environmentally responsible it really is. As of now, there are no studies comparing pre-certification levels with actual certification levels. Presumably, if a developer is making a commitment to LEED and going through the trouble and expense to pre-certify, it’ll make sure the building hits the same actual LEED certification target.

Is CS Too Hard?

If there is any common characteristic of LEED-CS buildings, it’s that they usually focus heavily on energy efficiency — especially after the energy-efficiency pre-requisite standard was ramped up in June 2007 to require that all LEED-CS certified buildings be 14 percent more efficient than the ASHRAE 90.1-2004 target. (This requirement will become even more stringent with the release of LEED 2009 early next year — see “LEED 2009

Approved” above.) Energy credits make up 14 of a possible 61 LEED-CS points. “You usually have to get four or five points after the energy prerequisite to ensure certification,” says Cahill.

Beyond energy, some developers say they don’t go after some LEED-CS credits because they feel they would actually make a building less competitive. One example of this, says Kennedy, is a credit that requires a system for measuring and verifying tenant energy use — essentially making triple-net leases and submetering mandatory.

Lea, one the founding fathers of LEED-CS, says the same thing about buildings he’s in charge of when he’s wearing his Hines hat. “Some things are too aggressive. Waterless urinals are typically one thing we don’t do. The credit for less parking is another — we don’t do it because tenants always want more parking.”

In all fairness, LEED doesn’t ask its users to get every point. Most developers agree that LEED-CS works nicely for what it is intended. Prior to LEED-CS, there was quite a bit of frustration in the development community because developers felt that LEED-NC was not applicable. Now, developers are joining the LEED party en masse. And tenants are following.