

Sustainability as an Imperative and an Opportunity for the Retail and Restaurant Industry

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Sustainability as an Imperative

Once motivated by altruism, sustainable retail development and building operation are increasingly encouraged by governments and market conditions, if not mandated by law. The reduction of greenhouse gas emissions to mitigate climate change is becoming a paramount policy concern at the local, state and federal levels.

Market Standards

The real estate industry has come to embrace “green building,” meaning construction and operation that minimizes environmental impact and is resource-efficient. The U.S. Green Building Council’s (USGBC’s) Leadership in Energy and Environmental Design (LEED) Green Building Rating System has become the de facto market standard. Many retailers and restaurants have developed shopping centers or stand-alone stores certified under the LEED system. The U.S. Environmental Protection Agency’s (EPA’s) ENERGY STAR program also enjoys significant and broadening market acceptance, to evaluate relative energy efficiency within asset classes, including retail facilities. Many companies that own or operate retail real estate voluntarily report their environmental impacts, including greenhouse gas emissions.

Regulatory Standards

Not always in synch with market conditions, the regulatory landscape is changing rapidly regarding all aspects of sustainability. LEED is increasingly required by local ordinance, or to qualify for government requests for proposals, and grant programs often favor or require sustainability. Moreover, many states have tightened their energy codes for new construction and major renovations. New York City has introduced legislation that would require existing commercial buildings over 50,000 sq. ft. to perform energy audits regularly, and to perform upgrades that are cost-effective over a five-year period.

Sustainability as an Opportunity

Sustainability may present attractive opportunities to the retail and restaurant industry, while taking into account its unique challenges, which often include:

- Accounting for significant interior and exterior lighting, including for parking\
- Clarifying management responsibilities for building efficiency
- Gaining sufficient expertise in operating and maintaining building systems
- Managing substantial refrigeration loads associated with food sales
- Overcoming more complex leasing, perhaps with both anchor and in-line tenants

Energy Efficiency

To improve energy efficiency, shopping centers and individual retailers and restaurants may hire specialized consultants to retrofit facilities and/or retrain operations staff. Another common model is to hire an Energy Service Company (ESCO) to guarantee a specified degree of improvement.

Indoor Environmental Quality

Retailers may also seek to increase sales or employee productivity by improving indoor environmental quality. Widely available studies of the positive effects of “daylighting” and eliminating indoor air pollutants have influenced the owners of shopping centers and standalone retailers to take corresponding steps.

Distributed Generation

Due to regulatory and market changes, owners and managers of large retail facilities can feasibly generate a larger share of their own energy on site from alternative and renewable energy sources. This requires interconnection agreements with local utilities to allow on-site facilities to interface with the grid, procurement contracts for equipment and consultant services, and/or power purchase agreements with on-site energy suppliers.

Reducing "First Costs"

Available government and utility-based incentives for green building vary based on specific location and issues with local regulated utilities. New incentive programs are being introduced monthly, including tax-exempt bonds, grants, rebates and loan guarantees, Renewable Energy Credits (RECs), and tax credits and deductions.

Procurement and Green Leasing

Appropriate legal instruments can help to ensure sustainable development and operation. These include design and construction contracts -- including for integrated project delivery (IPD) -- technology and consulting procurement contracts, and "green leases" to align landlord and tenant interests for optimal facility performance.

G&S Services

The retail industry must draw upon many disciplines to determine whether it makes sense to retrofit facilities, adjust operations, and change the way new development is undertaken. Our years of experience in real estate development, and our extensive network of industry relationships, enable us to assist our clients to select appropriate measures to achieve their strategic goals.

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