

Sustainability as an Imperative and Opportunity for Commercial and Corporate Office Developers, Owners, and Managers

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Sustainability as an Imperative

Once motivated by altruism, sustainable building development and operation is 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. Commercial office buildings are eligible for certification under several LEED designations, including LEED for New Construction (LEED-NC), LEED for Commercial Interiors (LEED-CI), LEED for Core & Shell (LEED-CS), and the newer LEED for Existing Buildings, Operations & Maintenance (LEED-EB:O&M). The U.S. Environmental Protection Agency's ENERGY STAR program also enjoys significant and broadening market acceptance.

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 for commercial and corporate office developers, owners, and managers, while taking into account their unique challenges, often including:

- Determining the engineering and economic feasibility of sustainability measures
- Assembling complete data about resource consumption at each building
- Clarifying management responsibilities for building efficiency
- Overcoming mismatched economic incentives involving landlord and tenant
- Making the business case to capital sources to provide private financing

Energy Efficiency

While figures vary, according to the EPA, reducing energy usage by 30% can lower annual operating costs for corporate office space by \$25,000 for every 50,000 square feet of typical space, and for commercial real estate can increase net operating income and building asset value by 5%. To improve energy efficiency, managers 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 through an energy performance contract (EPC).

Distributed Generation

Due to regulatory and market changes, owners and managers of large office complexes 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.

G&S Services

Managers must draw upon many disciplines to determine whether it makes sense to retrofit their buildings, 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 and implement appropriate measures to achieve their strategic goals.

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