

Live Green or Die

By Allen Kenney

REITs look to embrace green building standards

Presidential candidates Sens. John McCain (R-AZ) and Barack Obama (D-IL) might not share many positions when it comes to the major policy issues shaping the 2008 election: taxes, government spending, the war in Iraq. The list goes on.

Surprisingly, however, both seem to agree about the importance of addressing climate change, energy conservation and other issues near and dear to the green movement. Obama, for instance, has called climate change "one of the greatest moral challenges of our generation," crafting an environmental platform focused on measures like reducing carbon emissions by 80 percent by 2050 and putting significant investment into clean energy programs. McCain was pushing for environmental policy reform even before it became fashionable among his GOP colleagues, sponsoring aggressive legislation during his Senate career aimed at stifling climate change.



No matter the November winner, issues like climate change and energy conservation are sure to become even hotter policy topics in Washington in the next four years. As the environmental debate heats up on the national political scene, it's all but certain new environmental laws and regulations—featuring a mix of both carrots and sticks—will dramatically affect the way real estate companies do business. After all, buildings in the United States account for 40 percent of the country's total energy use and 70 percent of its electrical consumption.

"Buildings are viewed as one of the biggest opportunities for low-cost energy efficiency improvements. It ensures that buildings will be a big focus for policy-makers in this area," says Roger Platt, senior vice president and counsel for [The Real Estate Roundtable](#). "In big picture terms, the stakes for our industry in the energy and climate change debate are tremendous."

Trade You

The federal environmental building initiatives passed during President George W. Bush's two terms have been relatively modest. Yet, one such bill enacted stringent green requirements for all federal buildings.

The public policy measure generating the most attention on Capitol Hill during the latest congressional session has been the so-called "cap and trade" legislation to regulate carbon emissions. The highest-profile effort to date, "America's Climate Security Act" (S. 2191) co-sponsored by Sens. Joseph I. Lieberman (I-CT) and John Warner (R-VA), would require the Environmental Protection Agency to create a credit-based regime to regulate greenhouse gas emissions. The bill is widely considered a blueprint for the future, as political wonks generally don't expect any movement on the issue until after the upcoming round of elections. McCain, who co-sponsored similar legislation with Lieberman in 2003, and Obama both favor such a system.

Overall, the bill is intended to offer businesses a flexible way to accomplish a government-mandated emissions cut. Companies would be granted a specific emissions allowance, and, in turn, they could then buy and sell fractions of that allowance as credits among firms on an open market. The proposal also establishes a cap on total emissions that would gradually decline between 2012 and 2050.

Reduce, Reuse, Redevelop

By Tara Anderson

The construction and design industries have begun to reduce waste during the many phases of new building construction. This evolution in practice is due to a growing awareness of opportunities and the passage of legislation in more states and cities requiring sustainable construction, such as minimal LEED certification. For example, commercial properties in Washington D.C. that are 50,000 square feet or more must be LEED certified by 2012.

Increasingly, construction and architecture firms are adopting environmentally friendly policies. Robert Anderson, principal and LEED Accredited Professional at [Smithgroup](#), a D.C.-based architecture firm, says that growth in the firm's sustainable design practice has occurred because of "a combination of both our own corporate policy and client demand. We realized many years ago that it was the socially responsible thing to do, while also providing our clients with a superior product with less depletion of resources."



While the buildings may be new, many of the materials used in them now are recycled. Some of the recycled materials being used in commercial construction are building insulation, carpet, cement and concrete, consolidated and reprocessed latex paint and floor tiles. New buildings also are being fitted with energy saving appliances such as EnergyStar® approved heating and cooling systems. There are even energy efficient ceiling fans on the market.

Lighting control is a growing area for reducing energy consumption. Companies like [Encelium](#) are marketing lighting control systems for new buildings and also providing convenient retro-fitting for existing buildings. Some people worry that a lighting control system, which includes light harvesters and automatic dimmers, might mean sacrificing quality. Encelium chairman Dennis Townsend claims that "the quality will be enhanced considerably," as the system can deliver "exactly the amount of light where you need it and not where you don't" thereby reducing energy waste and saving clients significant amounts on their energy bill.

If a company isn't ready for an entire lighting retro-fit there are simpler, less expensive changes that they can implement to save on energy usage. Installing occupancy sensors ensures that lights aren't being used when they are not needed.

[Transcend Equity Development Corp.](#) is a company that focuses on retrofitting existing companies with energy saving appliances, reducing overall usage as much as 30 percent without increasing property operating expense.

There also are companies that focus exclusively on water saving plans. [American Water & Energy Savers](#), the largest water conservation company in the country, has been helping companies reduce water consumption since 1988. They offer water conservation system retro-fitting services that can reduce a company's water expenses anywhere from 30 percent to 60 percent.

Some simple ways companies can retrofit to reduce energy and water consumption include:

- Switching to compact fluorescent lighting
- Plugging air leaks
- Installing aerators in faucets saves up to 30 percent on water usage
- Tuning heating and cooling systems to maximize efficiency
- Using EnergyStar appliances
- Using light reflecting roofing materials
- Utilizing 'low-flow' water appliances to reduce water usage
- Exploring solar power and installing photovoltaic cells
- Using products that that don't give off volatile organic compounds (VOCs)—Low VOC paint adds only two cents per square foot

"The more efficient you become, the more valuable you'll become" under the new legislation's system, says Ed McMahon, a senior fellow at the [Urban Land Institute](#). "Efficiency will actually have financial value."

Among the most important measures in the bill for real estate companies are provisions added by Sen. Barbara Boxer (D-CA), chairman of the Senate Environment and Public Works Committee, designed to boost development of energy-efficient buildings. Boxer's addition to the bill provides a conservative estimate of more than \$100 billion in funding through 2050 to spur new construction of energy-efficient buildings and retrofitting of existing construction, as well as to reward retailers and distributors for boosting sales of efficient building equipment, electronics and appliances.

On the whole, Platt says the incentives are intended to try to give building owners a stake in energy efficiency. Platt also notes that the bill's retrofitting incentives are a coup for the real estate industry. "The opportunity to create incentives for existing buildings to retrofit is where you're going to get the biggest bang for your buck," he says.

Thinking Globally, Acting Locally

State and municipal governments actually seem to be more ambitious than Washington when it comes to environmental initiatives and policies.

"In the states you're already seeing the cap and trade systems advance. Cities are bragging about being the greenest," Platt says. "Major cities and states like New York and California are way ahead of the federal government in terms of the opportunity side and more aggressive mandates."

Platt points out that states and localities traditionally have lagged behind the federal government on environmental issues. Now, however, he says they realize that greener policies attract top talent and can provide an economic and demographic boon.

"Now among states and local governments you have a 'race to the top.' It's a branding issue to attract a young, talented workforce and an economy of smart people," he says.

Stricter environmental regulations are gradually becoming more rule than exception, according to Mark Peternell, vice president of sustainability for retail REIT [Regency Centers Corporation](#) (NYSE: REG): "Especially at the local level, we're finding that more of the markets we enter are starting to adopt various green building policies."

Philip Edison, a partner in the Chicago office of [Chapman and Cutler LLP](#), notes that the nationwide patchwork of different laws and regulations could take on even greater significance for REITs, which tend to hold assets spread across multiple states and metropolitan areas. Edison also contends that the eco-action for builders might be most prevalent on a local level right now. "A lot of things are perking up right now at the municipal level," he says.

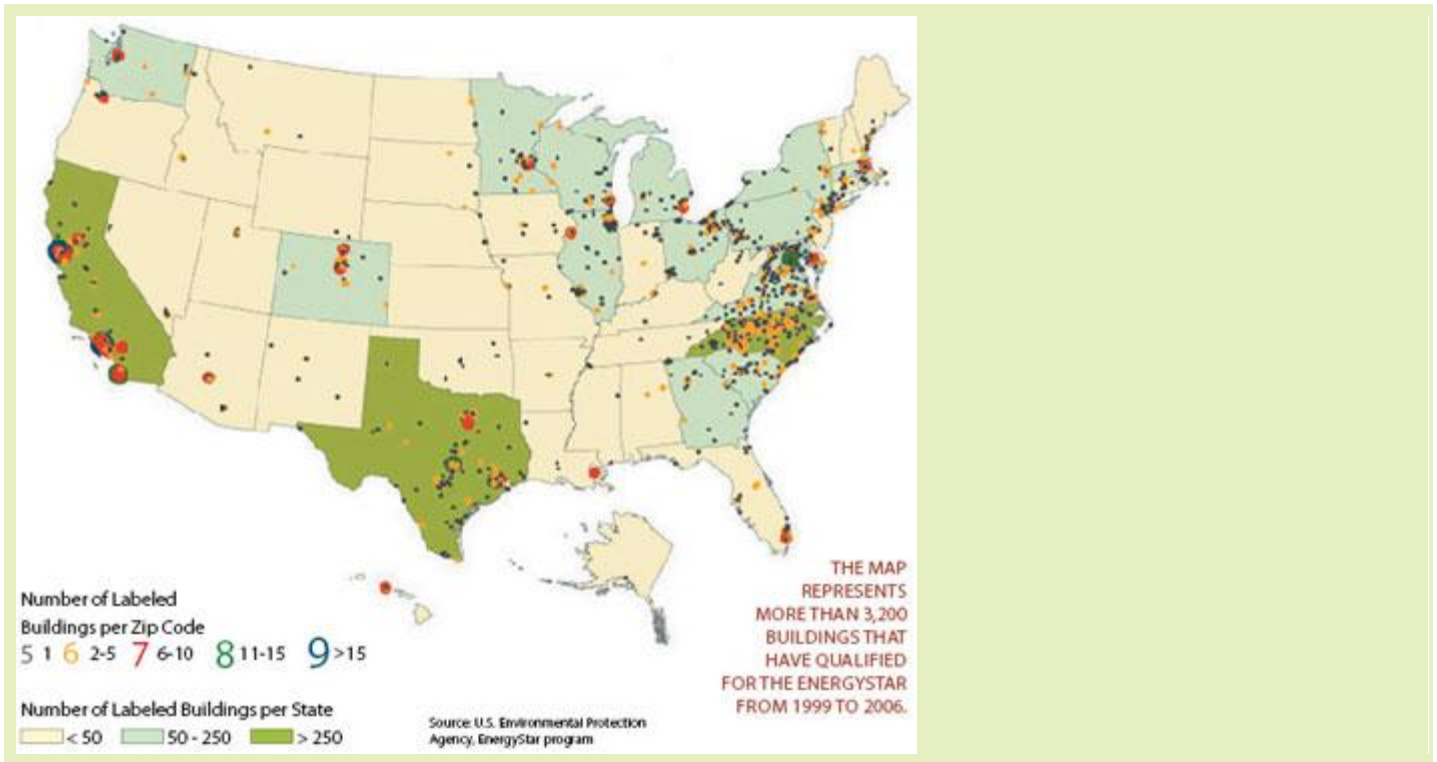
Chicago is one metropolitan area trying to lead by example when it comes to large-scale green building initiatives for commercial and residential development. Mayor Richard M. Daley introduced "The Chicago Standard," for example, in 2004 "to guide the design, construction, renovation, operation and maintenance of municipal facilities in a manner that provides healthier indoor environments, reduces operating costs and conserves energy and resources."

The Chicago Center for Green Technology, the country's first municipal building to receive LEED Platinum certification, is home to commercial tenants who provide eco-friendly products and services. Additionally, in 2007 Daley and former President Bill Clinton announced that Chicago would adopt the Clinton Foundation's "Energy Efficiency Building Retrofit Program" for refurbishing commercial sites to enhance their energy efficiency.

EnergyStar®

By Tara Anderson

While green commercial construction is up across America, some states are producing green buildings at a higher rate due to both client demand and the desire for LEED certification. The states that have the most **EnergyStar®** qualified buildings are California, North Carolina and Texas. As of 2006, each of these states had more than 250 qualified buildings: California alone has close to 800. Other states are not far behind in the sustainability race. Colorado, Georgia, Illinois, Massachusetts, Maryland, Michigan, Minnesota, New York, Ohio, Pennsylvania, South Carolina, Virginia, Washington and Wisconsin all have between 50 and 250 qualified buildings.



Bridging the Gap

Despite the enthusiasm for green real estate development, Edison downplays the idea that builders are flocking to areas just because of their eco-friendly inducements. He acknowledges there are few programs around the country with incentives strong enough to entice builders to that state or city based on those rewards alone.

"There's probably more interest in these programs than there has been real action," Edison admits. "From my experience, the companies that are making a serious investment in green technologies are doing it more because of a perceived moral responsibility or economic benefit through energy savings, not because a specific incentive is offered."

Consequently, he says, builders are primarily interested in the "nuts and bolts" related to green real estate development at this point. For the time being, that means the most effective programs offer ways to help builders "bridge the gap" between the cost of traditional construction and green development practices, according to Edison. For example, a municipality might offer subsidies for companies to install energy-efficient technologies in their buildings.

Even if the public policy rewards for going green aren't that exciting at the moment, the good news for real estate companies is that there's plenty of low-hanging fruit for reforming environmental standards. For REITs, that translates into an opportunity to make energy efficiency into a competitive advantage.

"The combination of the global focus on climate change, the focus on the costs of energy right now and the trend toward corporate responsibility makes green building a very natural way for real estate companies to distinguish themselves," Platt says.