

## Green Real Estate as a Powerful Asset Class

This column will focus on why “greening” a property makes sense from an investment point of view. “Greening” for the purposes of this column means enhancing energy efficiency and reducing the carbon footprint – the corollary result of which is usually enhanced tenant comfort.



### Some of the big picture reasons to “green” a building:

- Green first costs are becoming competitive – even those for retrofitting existing properties
- Green technologies reduce operating costs which delivers higher ROI
- Increasing amounts of data (see below) confirm that green features are a marketable amenity that enhance revenue streams
- Green properties are proven to produce higher, more predictable cash flows
- Fresh data (see below) proves that green assets show superior investment potential, especially for a long-term hold

### Some of the drivers of the shift to “greening” buildings:

- Increasing levels of government regulations will mean that some changes are inevitable – and these improvements will become more and more costly as the demand for them increase – it’s “Pay me now or pay me later”
- There is a growing consensus amongst the major investment firms that to continue to hold onto a property asset without committing to a strategy of greening that property is to choose a path leading to functional obsolescence
- Older buildings must be retrofitted in order to compete for tenant dollars with the more efficient building stock coming on stream
- Pension funds, institutional owners and higher profile corporations will increasingly demand that real estate holdings adhere to the same level of sustainability compliance as all of their other core businesses and operations
- More CEOs are mandating more and more rigorous CRS policies which will mean that real estate decision will be more and more driven by how “green” the buildings housing their enterprise are
- Increasing numbers of senior-level HR directors are seeing data that confirms that the best and the brightest thought-workers expect a healthy workplace environment and that absenteeism and sick-days diminish in direct proportion to how green a building is. The data on this subject is coming in with greater frequency now and is going from “gut feel” to hard metrics. The value of keeping and attracting the best employees by providing them with a comfortable, well ventilated, well-lit and healthy workplace will be shown in the next couple of years to exponentially exceed the value of reduced op costs as the key driver of these building improvements.

### Some metrics:

A study of a wide sampling of corporate space user decision-makers done by Jones Lang LaSalle for CoreNet in the spring of last year showed that:

- 77% would pay more for green space
- And
- 83% believe that the supply of green space is limited

The Conference Board recently reported that 75 percent of 92 member companies surveyed expected an “imminent cap and trade system” for carbon-dioxide emissions.

RCLCO – a huge developer of high-end retirement communities in the US, published results of a survey among potential buyers of retirement properties (who are in the top quadrant of higher education and income) which revealed that:

- 91% would pay more for green features for their retirement home

And

- 41% would pay more even if there were no financial payback

**One large project, very compelling data:**

Cushman & Wakefield were hired by Adobe to oversee 64 energy-efficiency retrofit projects for buildings that they own and occupy:

\$1,362,592 in costs (\$105,000 of which was a LEED consultant) less \$389,326 in rebates resulted \$1,182,145 in savings in the first year

Total reduction of \$1,571,741 vs. costs of \$1,362,592 delivered an ROI of 121% with a payback of 10.5 months

For the 53 projects which were specific to *energy efficiency alone*:

\$1,099,860 in costs (LEED consultant not factored but could be added as a weighted average of costs - see below) less \$383,930 in rebates resulted in \$1,004,778 in savings the first year

Total reduction of \$1,388,708 vs. costs of \$1,099,860 delivered an ROI of 126% and a payback of 9.5 months

For projects specific to energy where the LEED Consultant was used – with his fee on a weighted average based on costs - the ROI was 117% with a payback of 10.25 months

Biggest paybacks in the project:

Project	Cost	Rebate	Annual Savings	Payback (years)	R.O.I.
Lighting Dimmers	\$84,034	\$21,108	\$46,853	1.4	73%
Waterless Urinals	\$35,374	\$ 5,396	\$ 6,338	4.7	21%
Drip Irrigation	\$ 3,610	\$0	\$ 9,001	5 months	249%
Garage fan reprogram	\$ 200	\$0	\$98,000	immediate	48,204%

**Fresh green data:**

In a very large, robust national study released just this past March by The CoStar Group – a highly respected research and information firm in Washington DC area – comparing premium conventional real estate to LEED and Energy Star certified real estate, amongst all locations and product type, class, size and age:

	LEED	Energy Star
Occupancy %pts	+ 4.1%	+ 3.6%
Rent psf	+\$11.24	+\$2.38
Sale price psf	+\$171	+\$61

For further information on the above data or to provide information and data on the greening activities of *your* firm, please contact Karen Sisco, member: BOMA, CaGBC, CORENET, CUI and Toronto CREW [karensisco@ksebiz.com](mailto:karensisco@ksebiz.com) 416-473-4711