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The Winding Path to Net Zero

As environmentally friendly features become a mainstay of commercial property, learn what it takes to excel at selling and leasing green space.

Mel Harris will talk to anyone about being green. And, even deep in the heart of Texas, people are listening. “We’re starting to see more mindset changes,” says Harris, CEO and founder of Elements Realty Group LLC in Fort Worth, Texas. He notes shifts in the way his clients and partners perceive energy bills, the cars they drive, and their personal wellness. “People are thinking differently today.”

In spreading the green gospel, Harris, GREEN, GRI, has specific strategies for specific groups. With builders, it’s all about the bottom line. For investors, he details when they’re likely to see a return on their money (green buildings may offer profits more quickly than conventional properties, he says, thanks to higher rents and lower utility costs). Business owners looking for space want reliable stats about how much daylight and fresh

air a building will provide them, their customers, and their employees. And with brokers and others in the real estate community, he loves sharing his personal experiences, from the green upgrades in his own home to the special financing options some of his own clients have used to purchase environmentally friendly properties.

Although green building and energy-efficiency issues are likely to be on the back burner for the Trump administration, momentum remains strong for state, local, and grassroots initiatives. “Cities are very aggressive on their climate action plans,” says Cathy Higgins, research director for the New Buildings Institute, a Portland, Ore.–based nonprofit focused on high energy performance for commercial buildings. She adds that more than 20 percent of

the buildings in NBI’s latest study are private-sector projects, something she predicts will grow as a share over time. “They’re not being driven by policies. They’re being driven by self-interest.”

Knowledge and ability in marketing green buildings is moving from a niche skill to a necessity among commercial real estate pros as more and more states incentivize or even mandate green construction and tenants continue to seek energy-saving building updates. In the meantime, new marketing practices are sure to emerge as green building industry standard-bearers, like the U.S. Green Building Council, use evolving technologies to reimagine their data offerings and improve engagement and accountability in green certification.

Becoming familiar with state guidelines pertaining to green buildings in your

market—and what’s on the horizon—is essential to developing professional credibility. While New York, Washington, Massachusetts, and others are developing environmental requirements for commercial space, California unsurprisingly leads the pack, Higgins notes. California’s stated goal is that all new construction will be net zero—meaning buildings produce as much energy as they consume, or more—in less than two decades. And California real estate pros take heed: Half the state’s existing commercial building stock will be expected to meet the net-zero requirement by 2030 (with a 2020 goal for residential). “It’s going to be law in California. [Real estate pros] don’t want to be chasing the train; they want to be on the train,” Higgins says. And it’s not just regulatory pressure for green buildings that will grow in the coming years but demand in the marketplace. “With this next generation of ‘thought workers,’ there’s an expectation of a green, clean environment.”

As a result, Higgins says demand for green commercial space is already expanding beyond California, Class A properties, and big cities. Soon this demand will affect smaller markets, more modest developments, and building Classes B and C. These considerations can help inform your marketing approach when working with prospective investors, tenants, and the community.

To LEED or Not to LEED

A common way to promote a property as green is to highlight third-party verification of its environmental friendliness. With some 89,000 projects and 14 billion square feet of LEED-certified space around the world, the U.S. Green Building Council’s flagship Leadership in Energy and Environmental Design

is among the best-recognized green building programs. LEED is available to structures from single-family homes to the largest commercial complexes and can be pursued at any stage of property development or usage. USGBC looks at a wide range of factors—building materials, energy and water usage, indoor environmental quality, and sustainability—to award properties the points that will determine the overall LEED rating: Certified, Silver, Gold, or Platinum. (NAR’s headquarters in Chicago is LEED Gold, and its Washington, D.C., building just achieved LEED Platinum after operating as LEED Silver for 12 years.)

While LEED is the standard with the most name recognition, some 70 programs worldwide offer green building certifications. Mahesh Ramanujam, CEO of USGBC, has worked with outside organizations and countries to help develop other third-party verification systems. LEED heads up the pack, he says, because it’s a holistic rating system from which most of the other standards derive. “Everybody copies from LEED,” he says.

But LEED isn’t just an award. Alexia Crowley, CCIM, a senior associate at Colliers International in Las Vegas, says it can function as a guide for how to best tackle a big project. She cites the

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example of 302 E. Carson in downtown Las Vegas. When it was purchased in 2006, the 1960s-era building was filled with asbestos and nearly vacant, and the new owners were tempted to level it. Instead, they used the goal of achieving LEED Gold as a road map, highlighting the key renovations that needed to be made. That commitment and the subsequent follow-through was what attracted such high-level tenants as HUD and Zappos. “That’s a great example of what LEED certification can do,” says Crowley.

LEED’s future preeminence, however, is far from a sure thing. Other certification options are already enticing building owners. Canada’s Green Globes program is gaining traction in the United States because it’s been shown in several studies to have similar criteria to LEED but costs less and has less stringent requirements. Officials from the International WELL Building Institute have worked closely with the USGBC and others to create a standard that is focused more on altruistic capitalism and social responsibility, two values that are particularly important to that next generation of thought workers. Both the percentage and the total square footage of LEED-certified space were down slightly for the first time in CBRE’s third annual National Green Building Adoption Index, which charts the growth of Energy Star– and LEED-certified space for the 30 largest U.S. office markets. Observers say the negligible changes are not a signal of waning interest in eco-friendly buildings but rather an indicator that owners may be either seeking alternative certification processes or letting their LEED certifications expire.

Higgins says she’s seen reduced interest in LEED in her research at NBI, but she attributes that to growing confidence among builders and developers’

knowledge of the underlying tenets of LEED certification. If they can incorporate energy savings and green features such as natural lighting, the actual certification process may be seen as secondary. Harris adds that certification doesn't necessarily signal a long-term commitment to green values from builders and property owners: "Are they stepping up and having to perform at today's level, when they made LEED Silver five years ago?"

So how should a real estate pro navigate these concerns? Ramanujam says a newly launched USGBC platform, known as ARC, will address accountability concerns in a simple, user-friendly way. The system allows property owners and managers to submit performance data for their buildings to the USGBC every year to easily become recertified or even change the building's status based on new data. "LEED has sometimes restricted people in the past," he says. "With ARC, all buildings can be green."

ARC, which debuted last December, also offers marketing tools. Real estate professionals can compare the performance of their listings with other high-performing properties in the area, or with other buildings of the same property type across the country. "We give you the opportunity to benchmark yourself locally, regionally, and globally," Ramanujam says.

The Power of Knowledge

The most straightforward way to market a green building is by promoting lower energy costs. Smart thermostats and data from utility companies make it easier to track usage data. Like homeowners, commercial tenants regularly consider these costs, as many are involved in triple-net leases or other agreements with owners that require

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them to contribute to utility costs.

Highlighting the advantages of using sustainable materials is also a smart idea. Harris reminds investor clients that many green materials are likely to be more resilient and cost-effective than conventional ones. "If I have a client who uses cheap topping to resurface a parking lot, the lot has to be redone every three to four years," he says. Having done his research, Harris can share his knowledge of a sustainable product that has already proven itself to last 10 years, saving the client several thousand dollars.

Harris views such due diligence as part of his value proposition as an adviser. Commercial clients should be thinking about their needs at least five years ahead, and real estate pros can help them work through critical questions. What are their expansion needs likely to be? Will they be able to raise rents enough to cover tax and facility cost increases? Will the building still be up to environmental code? "That asset is a living asset. You build the mindset of resilience around that," he says.

Real estate pros who market existing structures should also research a building's remodeling history so they can highlight resilient materials and processes that have been added. Higgins says any time a building owner needs to replace outdated systems, the best choice is "not to catch up on it in a big renovation,

but doing it incrementally." Brokers who understand how upgrades have brought listings closer to the health and environmental standards that govern new construction can use this in their marketing to differentiate existing buildings as more competitive.

Those looking to attract tenants to green office buildings might want to take some cues from coworking spaces by offering large, open atriums, flexible conference rooms, and inviting communal eating quarters. Crowley uses such considerations in her marketing of green buildings. "I always talk about location and the amenities," she says, whether that's how the building is oriented to take advantage of natural light or the bike parking out front.

REALTOR® organizations at the local, state, and national level are continuously working to balance private property rights and the free flow of business with their support for environmentally conscious policies. Whether real estate pros are lobbying a city council for green building incentives or marketing a green property to a skeptical buyer, Harris says success often depends on a single driving concept: simplicity. A major misconception about building green into a real estate marketing plan is that it requires a huge investment of time, money, and energy: "It doesn't have to be complex. It doesn't have to be overly expensive if you look at the opportunities that are there and you look at [building] resilience as a big-picture concept."

Crowley agrees. Commercial real estate clients don't necessarily have to invest more money to go green, she notes, but they do need foresight: "It doesn't cost more to do a green build-out or new building, but you have to plan ahead."

By Meg White