

BANKER & TRADESMAN

THE REAL ESTATE, BANKING AND COMMERCIAL WEEKLY FOR MASSACHUSETTS

ESTABLISHED 1872

Leasing Green a Major Trend As Owners Sought Certification

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As energy prices soar and climate changes linked to global warming become a permanent part of our daily experience, property owners are responding by incorporating features into new construction, both residential and commercial, that conserve energy in daily operation and contain recycled and/or renewable materials. To date, industry analysis of the trend has largely focused on new construction. Increasingly, however, both tenants and landlords have begun to think about how the so-called “green revolution” might affect their leasing decisions, particularly in older buildings constructed before environmental considerations were a part of the equation.

In the case of new construction, developers have, for some time, actively sought LEED (Leadership in Energy and Environmental Design) certification for their properties. The certification consists of a review of building features in such areas as performance, operations and maintenance, and against a rating system that awards points for minimizing environmental impact. The rating system establishes classification categories ranging from “certified” (the lowest certification level) to silver, gold and platinum (the highest). Points are awarded, for example, if on-site stormwater is recharged into the groundwater or reused

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within the building, if a building has an EPA Energy Star rating of 60 or above, or if refrigerant emissions from the building's HVAC systems are maintained at low levels. If enough of those elements exist within a building, the building receives LEED certification. In short, a LEED-certified building is an environmentally friendly building. Such certification is a selling point for many potential tenants, particularly the growing number of companies that place a premium on environmental sensitivity as a part of their business plan.

**2007
IN REVIEW**

The conventional wisdom has been that green building considerations are most cost-effective if they are incorporated into the construction of the building at the outset. Many landlords have been reluctant to go green or to update existing structures with environmentally sound components because of the perception that doing so is an expensive proposition. However, with advances in many types of building technology, green features can be retrofitted into existing buildings in a way that is economically advantageous. For example, office lighting can be installed with sensors which determine whether a space is in use; if the space remains unused for a selected period of time, the lights can be dimmed or turned off, thus saving energy. Heating and cooling systems produced today are far more efficient and produce fewer emissions than those produced ten years ago. Insofar as some of these systems are replaced, or at least upgraded, as an element of normal building maintenance, going green doesn't necessarily have to be onerous, particularly in consideration of the long-term cost savings.

In addition to the potential operational cost savings for the landlord, there are considerations from the tenant's point of view that make environmentally friendly buildings desirable as well, which affects rent lev-

els. Employee productivity is a consideration for all employers, as productivity includes consideration of work time lost due to employee health problems. Stories of “sick buildings,” which contain contaminants such as asbestos or do not enjoy a healthy air-flow, are not news, but air-quality issues are sometimes more subtle than those rather glaring examples. Many individuals are sensitive to emissions from paints, adhesives or sealants, or even from certain types of manufactured carpeting commonly used in a building, and, as a result of this sensitivity, are absent from work due to exposure. The use of paints, sealants and adhesives within a building that are low in emission levels can reduce sick time of these employees. Similarly, floor coverings, particularly carpeting, which are made of natural materials and do not emit fumes or gases, help to create a healthier office environment. A landlord leasing space that can boast those attributes is better able to compete for tenants who are increasingly demanding such features.

Bearing Economic Fruit

While environmental consciousness is, in the abstract, a good thing, the real test is in the marketplace. A building that uses energy efficiently reduces a landlord's operating costs. Whether that shows up in a more profitable building operation or a more competitive leasing situation, the bottom line is that “green leasing” won't have a significant impact unless it bears economic fruit. High energy costs, which more and more seem like a permanent part of the landscape, seem likely to accelerate the trend toward more efficient (and therefore more environmentally sensitive) building operation. As the general public (including business owners who lease space) becomes more concerned with global warming and air-quality issues,

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inefficient building space will become less desirable and therefore more difficult to lease.

The allocation of the cost for obtaining these efficiencies is the area where the pace of conversion to greener buildings will be determined. For example, if a building is made more energy-efficient, but a tenant is insensitive to their own energy use, the landlord might not reap the benefit of the investment in new technology. One solution would be to separately meter a tenant's energy use and require them to pay for their

actual use rather than including some estimation of energy use in a monthly charge. This provides an incentive to the tenant to be efficient. Monitoring, or separately metering tenant water usage, may have the same effect. Establishing mandatory recycling programs within a building is another area where a landlord may be able to gain control over costs without unduly burdening a tenant. In addition, all of the above suggestions earn points toward LEED certification.

In very unique and unprecedented ways, landlords and tenants are faced with the

challenge of conducting business profitably while dealing with environmental concerns that, only a short time ago, existed only in science fiction novels. Meeting this challenge is likely to require changes to the way buildings are operated, space is leased, and business is conducted. Staying ahead of the curve on environmentally related issues has not been a historical feature of the commercial property management landscape, but that is no longer the case. This fact ensures that green leasing is an area that will become a major consideration in future landlord-tenant relationships. ■