

Real Estate NEW YORK

GREEN ROUNDTABLE

PARTICIPANTS



Freedman



Baker



Fay



Barton



Padian



Block



Mohamed

Real Estate New York tackled the issues surrounding environmental sustainability at a Green Roundtable program held at the Penn Club. Panelists were: moderator **Robert Freedman**, executive chairman, Williams Real Estate; **Emily Baker**, administrator, General Services Administration's Northeast and Caribbean region; **Nora Fay**, principal, Lehr Construction Corp.; **Catherine Barton**, corporate director of business development, Green Depot; **Andy Padian**, head of the multifamily buildings division, Steve Winter Associates; **Kenneth Block**, partner, Tannenbaum Helpner Syracuse & Hirschtritt LLP and **Ali Mohamedi**, managing director, Carlyle Development Services.

FREEDMAN: *When we take sustainability out of the realm of the abstract and people start to frame the green issue in terms of what is its ROI, can it effectively compete in this marketplace?*

PADIAN: I think we have unfortunately started off on the wrong foot because everybody seems to think that green is ground source heat pumps, solar panels, green roofs, bamboo floors, and really expensive technologies. Greening a building is making a building safer and more energy efficient. Typically, a lot of things you do in that are zero cost increases. I find an awful lot of building owners that can very simply reduce their energy usage by 10%, 20%, 30% and 40%. On the commercial side, we're doing a lot of training with the unions in the city, both 32BJ and Local 94, and they are hungry for this because they want to know the simple things that they can do to make their buildings more energy efficient, because that makes them worth more to their company.

At the same time, as buildings get more energy efficient, and if they decide to go after a LEED certification—which in a lot of buildings, is really simple to do in existing buildings if the building is already sufficiently efficient—it's really easy to change your cleaning practices, it's really easy to change and put safer chemicals in your building. And as one very, very difficult-to-deal-with engineer told me when he did his first LEED building, "You know what I like the most about doing a LEED building is? That when I go on the job site, it doesn't stink like poison."

So we're making both the job site and the workplace healthier while we're doing this. This, again—is not about crazy tech-

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nologies. This is about things that are 20, 30, and 40 years old that are really easy to do, that most people that are pretty good in the industry know. Tie them together in a system, and buildings become very efficient, very cost-efficient, and we have super-fast return on investments on all of these things.

BARTON: Municipalities are one really interesting example of where communities are making a difference. Commitments to LEED building in the cities of Babylon and Hempstead out on Long Island are mandated for both public and private construction. The mayor of Paterson NJ, and the mayor of New York City are actually promoting financial incentives for taxpayers to make decisions about engaging in energy saving building projects, using less natural resources, or just providing a healthier indoor air environment. In New York City the emphasis is on interior improvements, because we don't have a lot of control over our exteriors. When you refer to sustainable site work in New York it's all about roof, sidewalk and façades.

And then the other piece where I've noticed best green building practices resonate is in the EDU sector—the educational institutions and also the health care institutions where they tend to do their capital campaign work up front. They raise the money for the building project first, and then they build it. So these are people who have had an opportunity to build funds and look at return on investment for possibly implementing green or energy efficient or water conserving systems. And that's where we, as an environmental building supply company, are really seeing an increase in green building projects.

MOHAMED: Just before I walked in, my colleague handed me an article that I think is appropriate for this gathering. This is a quote from Dave

Rothkopf's book called *Superclass*, it says, "Is the economic crisis going to be the end of green, or could green be the way to end the economic crisis?" So again, the decision to go green, the decision to go after LEED certification—given the current state of the economy, which I'm sure no one in this room has been immune—has to do with quantifiable financial metrics, at least at this day and age.

When we examine the value chain of green buildings—the supply chain, if you will—the top of the pyramid, obviously, are the landlords, the developers, the investors, the end users could be tenants. Then we have the designers, architects, engineers, consultants. And then the manufacturers, the contractors, the installers, the distributors, who deliver the green products. So for the value chain to be able to deliver green goods and services, they need to be profitable. Otherwise it doesn't make sense. And profitability can be achieved in two ways: maximize revenue and minimize cost. So then we, as promoters and marketers of green products, we need to be looking at how and what are the initiatives that drives those two ends.

On the revenue side, I think the government plays a big role. In New York, we have NYSERDA as an example that has a wide range of incentives. New York City's Local 86 mandates LEED certification for government buildings. GSA, I believe, recently announced that all their public buildings have to be LEED certified. So obviously, that helps. As taxpayers and voters, we want to do more of those.

But on the private side, people are economically driven. And unless going green and obtaining the certification increases, enhances the assets' value, or decreases the operating expenses, there's not a lot of interest there. On the cost side, which I think is a little bit more complex, it appears that the providers and the manufacturers have a

perception that providing LEED or green services is sort of an added service, an option, an add, and that translates into a premium for those goods and services. It's our belief that a major driver to reduce cost of delivering green goods and services is for the related processes to be integrated into current ones. Let's use design and architecture as an example. Today the design firms will charge for added services for LEED certified projects as they did in the late 80s if an owner demanded using CAD. Once the processes are integrated, then most if not all of the design professionals will be LEED certified and all design tasks and processes to produce owner requirements and programs, including construction documents, will not be much different for a LEED or non-LEED project.

FAY: What Ali was just saying is really important. One of the biggest challenges today, obviously, aside from just having a project to build, is also justifying the cost of having them go green or actually for LEED certification. There are costs that will eventually be recovered through energy efficiencies but there are also so-called intangibles that I think we need to talk about that do create a return on the investment that are not necessarily taken into account in dollars up front, but over the long haul will be measured. These include a very positive environment for the employees to work, much greater employee productivity—and these have been measured.

There are many, many studies that have been done proving that a LEED environment is very different from a traditional sealed, gray, fluorescent, just dull kind of space that people have been locked into for the last 40 or 50 years. A LEED space feels very different. There's a tremendous amount of emphasis on ergonomics. These may seem like intangibles, but when your employees become more

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productive, when they feel better, when you have a lower absenteeism because they're not being poisoned by their environment; it counts and can be measured in ROI.

FREEDMAN: *You're talking about enhancing productivity, I read a study that LEED certified buildings are outperforming industry averages with respect to occupancy, rental rates and sales prices.*

FAY: That's correct.

FREEDMAN: *And that is what people of commerce understand. I agree with you, you're enhancing productivity; the indoor air quality is dramatically better.*

FAY: I think there's going to be more of a green market because it's such a competitive environment—landlords need something to differentiate their buildings from their competitors. They want to save, as you said, on their operating costs, as do their tenants. When given a choice of a green building versus the same price per square foot of a traditional space, almost every time, people will opt for—all things being equal with location, services and everything else—people will opt for the green space.

BAKER: GSA comes at this from a very interesting perspective. With the help of architects and engineers, general contractors and construction managers, we are the designer, the builder, the building owner, and also tenants of our buildings. So we look at the sustainability movement very holistically. Because we're not only designing and constructing these buildings, but we're occupying them as well, and our tenant customer agencies are right next to us. So if something doesn't work, or work the way it should, you hear about it.

GSA undertook, very recently, a comprehensive study of 12 of our sus-

tainable buildings. Seven of these were LEED, the other five were sustainably-designed or upgraded. We undertook this post-occupancy evaluation to see if we were achieving the results we were looking for by comparing our buildings to U.S. commercial buildings using accepted industry and government standards for benchmarking. What we found was a 26% reduction in our energy use, which translates to real savings, a 13% reduction in our maintenance costs, a 27% increase in our customer satisfaction, which also saves money by keeping tenants satisfied and in the buildings long-term, not having to swing space, and we realized 33% fewer carbon emissions. These are real results for us to look at and see, quantifiably, that we are moving in the right direction. And it's something that we're doing more of.

As was mentioned, GSA has made the commitment that all of our new projects will be, at the minimum, silver LEED. And that is going very well. We're working right now on the Champlain Border Station towards Gold, and many of the other projects are looking beyond even that.

The cost delta has shrunk between conventional and green products in building maintenance. These are the products our contractors are using to clean our buildings and maintain our buildings. We're seeing that the difference to repaint a hallway, to use a conventional paint or a no-VOC paint is minimal; but, with a no-VOC there are no fumes in the hallway for both our contractors and our tenants, and it improves the health of the building overall, especially since we are talking about buildings with very tight envelopes. So what you're putting into these buildings, everything from the toilet cleaner, to what you're cleaning the floors with, to the paint on the walls, is important.

And we're seeing that these are very easy changes with real results.

It helps not only GSA but our tenant agencies and the public we serve.

BLOCK: I'll sum up from a business standpoint. A year and a half to two years ago, the big issue was whether we should build green and what is the cost of building green. People would comment that is not even the right question; rather the question should be: what are the ultimate savings from building green? There was also a lot of discussion of whether there are incentive programs, and why do you build green?

What's the return on investment? I think that's history, ladies and gentlemen. A perfect storm has now hit: whether it is the local law mandates: Local 86 states that if you want to participate in a public project in New York City, or even a quasi-public project, you have to build LEED silver; whether you want to build in Battery Park City, you have to build LEED; or whether you want to work for the government, our friend in need, you have to build green.

There's no question that green is here. And I think, for the rest of the evening, we should be talking about how to build green. There's no question that green is upon us. And the ultimate perfect storm is the economic crisis. Tom Friedman said it well that the economic crisis will not kill green, green will help solve the economic crisis. We'll be hearing about green jobs. What we will be seeing from Washington is that if you want to play the game, you're going to play it green.

FREEDMAN: *How do you see sustainability's growth unfolding? Will it evolve more grassroots, or will it be government-driven, going forward?*

BARTON: We've seen some local leaders take environmental positions. I had a terrific experience a couple of months ago. The mayor of Greenport (Long Island) attended a green func-

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tion not dissimilar to this, and was shown an opportunity to realize substantial energy savings for the town of Greenport. So I think that, in general, what's happened is that there are programs like EPACT, the Energy Policy Act, which is a federal program which enables you to realize, either in a substantial renovation or a new construction, up to \$1.80 a square foot in a tax credit; 60 cents for building an energy efficient building envelope; 60 cents for doing smart things with lighting and daylight harvesting and 60 cents for energy efficient mechanicals.

FAY: One of the things that will come out of the bailout is the extension of the Energy Efficient Commercial Building Tax Deduction through Dec. 31, 2013. This was added as a sweetener to get some members on board and get it passed. Also, New York City wants to institute something that Chicago is already doing, which is a preferred time frame for getting a building permit. Now, that may not seem like a lot right now because there's not a lot of projects being filed, but with those types of incentives--it's not going to be just about dollar incentives but a time incentive as well.

FREEDMAN: *By the way, if you can reduce the cycle time of a development project, it does have monetary value. If you can pull permits because you're green a lot sooner than your brethren who does not have a green building, that's of incalculable value. Not in this market, but when the markets become rationalized, I couldn't agree with you more. And it can't quite be quantified monetarily, but it has great economic utility. That's a great concept. Anything else?*

PADIAN: If we look at existing buildings right now that are in this city

and are in this country, 40 years from now, 95% of the buildings in this country will be buildings that are already built. So existing buildings are very important to us. And dealing with existing buildings is very important. And although the LEED system is very nice for new construction, there are maybe 20 LEED buildings in New York City? It's insignificant. And what we need to do is deal with existing buildings and how to make them more efficient.

The beautiful example is—I don't know if you get a chance to go down to Battery Park City and see the Solaire. It was the first LEED multi-family building in the United States. And it's a spectacular building and they're really nice about giving people tours and showing people around, and we certified that building. But at the same time, we just finished an energy audit of Peter Cooper Village and Stuyvesant Town. In every single aspect, Peter Cooper Village and Stuyvesant Town are more efficient than the Solaire. Let me repeat that. Peter Cooper Village and Stuyvesant Town use less energy to heat, less energy to make hot water, and less energy to light the tenants' apartments and hallways than the Solaire does, and it's master metered for everything.

And the managers and maintenance staff of that building had to pay for it, so a completely un-insulated building is actually spectacularly energy efficient, and could become a LEED certified EB building in seconds, except that the U.S. Green Building Council hasn't figured out a way to benchmark multi-family buildings because they're in this niche between commercial and residential, and no one really knows what they really are. So I'm not always going to jump on the LEED bandwagon, I'm not always going to jump on the green bandwagon.

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Emily R. Baker, regional administrator for the General Service Administration's Northeast and Caribbean region, oversees an annual estimated operating budget of \$1.4 billion and a real estate portfolio that includes 86 government-owned buildings and leased space in 556 commercial buildings

Kenneth M. Block, partner with New York City law firm Tannenbaum Helpmeyer Syracuse & Hirschtritt LLP, specializes in real estate and construction.



Nora Fay, a principal with construction management/general contracting firm Lehr Construction Corp., has 21 years experience in construction and related industries

Catherine Barton, corporate director of business development for Green Depot, creates relationships with developers, architects, contractors, government, and others in the green building arena.



Robert L. Freedman is executive chairman of Williams Real Estate, a FirstService Co. Under his aegis the firm has developed a formidable real estate advisory practice.

Ali Mohamedi, managing director of Carlyle Development Services, has more than 20 years of management and operational experience in the design, development, and construction industries.



Andrew Padian runs the multifamily buildings division for Steven Winter Associates, Inc., a nationally recognized consulting firm and leader in sustainable building practices. He has more than 25 years experience in multifamily construction with an emphasis on the affordable housing sector