

From Green to Gold in a Troubled Economy

by Robert E. Mattler

Green building is not a fad. It is the direction in which our entire economy is beginning to move and how our built environment will be developed in the foreseeable future. With such fundamental change comes fear, uncertainty, resistance and denial for those who have been successful with prior business models and practices.

Providing a basic methodology, a new business model and a better understanding for the basis of "going green" in the first place can bridge the gap in deciding whether to

pursue a sustainable retail-oriented building project. It is the goal of this outline to help the investor, developer, business partner and associated professionals understand the changes involved with the green building movement.

Why Build a Green Building?

Sustainability

One of the best definitions for sustainability as it relates to buildings comes from the U.N.'s Brundtland Commission report of 1987: "Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs." In other words, our society will benefit living off renewable resources and not one-time resources (fossil fuels) that are non-renewable.

High-Performance Building Characteristics

High-performance buildings use less water and energy than a conventional building, have fewer negative site impacts due to advanced planning and usually higher levels of indoor air quality. A high-performance building project is also one that analyzes its potential "carbon footprint" and then reduces its negative impact on the environment and human health, whether considering a retrofit or designing a new building.

These building owners also consider at least some measure of their building's life-cycle impact and choose building materials with that thought process in mind – including furniture, fixtures and equipment. In most circumstances, green building owners benefit from the reuse of building materials, superior site selection, and consensus-driven design and construction choices, along with lower building operating and maintenance costs.

The Business Case for Green Retail

Green Retail vs. Other Building Categories

One of the reasons green retail buildings have lagged behind office, industrial and other commercial green-building types is due to the unique nature of retail developments, with many multi-tenant properties and triple net leases. Ad-

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ditionally, it is also ironic with green retail projects that while the developer pays for the extra insulation, more efficient lighting, HVAC and stormwater management, recycling and the Leadership in Energy and Environmental Design (LEED) certification costs, the tenant derives most of those early benefits through lower common area maintenance (CAM) charges, superior comfort, air quality, etc. and the retail center's green advertising and promotional efforts.

Proven Business Benefits of Green Retail Centers and Stores

1. Increased long-term building and center value from higher rents, increased net operating income (NOI) and improved public relations;
2. More competitive real estate holdings for private sector owners over the long run, including higher resale value;
3. Productivity improvements for long-term building owners, typically 3-5 percent;
4. Risk management, including faster lease-up and sales for private developers and less risk to employees' exposure to toxic chemicals;
5. Political and entitlement benefits provided to sustainable retail stores and centers;
6. Greater access to debt and equity funding for developers, as both banks and investors along with public-private partnerships make green building projects a greater priority;
7. Cost savings on utilities for energy and water, typically as high as 30-50 percent, while having a reduced carbon footprint from energy savings;
8. More tax benefits for specific green building investments such as incorporating solar, geothermal or wind energy into a development;
9. A common shared value with key shareholders and decision-makers, that being a shared commitment to sustainability and environmental stewardship.

The Costs of Greening Buildings and Developments

The main factor in the decision to build a green retail center or store involves the possible extra cost and the derived benefit from such a decision. As of this year and with green retail building gaining momentum, there are more and more case studies for design and construction teams to follow for cost cutting and cost management. Certainly as developers, architects, construction managers, general contractors and subcontractors familiarize themselves with the holistic approach to retail green building and all that it entails, the cost of this learning curve will lessen as more projects are undertaken and eventually completed. Repetition begets cost cutting, efficiencies and increased benefits when it comes to developing more and more LEED projects or adding more green attributes into an owner's present building portfolio.

While the evidence from the development community shows some LEED certification projects may initially add up to 2 percent to the capital cost of a retail development, the takeaway lessons from many project studies sup-

ports the notion that the cost for a basic LEED certification should actually decrease to zero once the fundamentals of green design and green building have been learned. In addition, the substantial cost savings over the long term will trump any up-front costs. Certainly, having a knowledgeable LEED Associate Professional (AP) leading the development team through the certification process and having a LEED-certified building in mind as the initial goal will help an owner stay within the desired building budget.

It takes a developer with foresight, team-building skills and leadership to enter into its first LEED project, especially if they don't have an experienced LEED development team in place. While an initial LEED project may add up to 15 basis points on the initial rate of return, it is certainly something to be concerned about but in no way a deal breaker. If LEED certification was a deal breaker, the entire LEED certification system would have collapsed many years ago and not gained the traction and momentum it is now enjoying. This is especially true in our current economic downturn.

Another concern to developers includes the up-front additional costs associated with such a project, while the benefits of a green building are mostly recouped in the future through energy savings, lower maintenance costs, higher rents, less absenteeism and a more valuable project. Even the opportunity to capitalize on marketing and

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public relations benefits are both speculative and difficult to quantify. Yet, the most realistic and present benefit to a developer lies in a faster entitlement process and lower development fees in certain categories, such as a lower storm sewer connection fee.

Notwithstanding the recent tremendous growth in the green building industry, the more than 180,000 credentialed LEED APs who have gained knowledge of all aspects of green building design, and with greater public awareness of the benefits of green building, many professionals in the industry have not embraced such changes. Why not?

Many executives still perceive that green buildings add a minimum of 10 percent or more to the cost of buildings, even with ever-increasing evidence to the contrary. A further impediment are those individuals within associated building industries who simply refuse to change their past practices and methods of work. Any key executive or decision-maker who fails to see the value of green building can stall or stop a green building from ever getting past the drawing board. While green building has reached the tipping point and may now be considered mainstream, it hasn't penetrated all markets and sectors of the design and building industries. In fact, it is only in the beginning stages of having been accepted as an integral building process. Much work remains.

Retail Green Building Corporate Leaders

Walmart

Walmart is no newcomer to energy savings, a predictable customer experience and economies of scale. For more than 12 years, it has been using skylights and turning off all lights on bright days without the customer even noticing the store is being lit by natural light. Walmart is capitalizing on additional profits with its daylighting program due to independent studies proving sales gain associated with extensive daylighting.

Walmart has been building high-efficiency stores since 2005. In March 2008, Walmart built a store in Las Vegas and referred to it as a HE.5 store. This store was designed for the western climate and is estimated to save the corporation up to 45 percent of other stores' standard energy usage. Walmart has also installed 19 photovoltaic systems in

California and Hawaii stores. Walmart is dedicated to using only suppliers who have sustainable operations as a goal, and can prove through life-cycle analysis or benchmarking their efficiencies that they can also define themselves as good corporate citizens when it comes to the environment.

McDonald's

McDonald's joined the U.S. Green Building Council (USGBC) in early 2007 and is a member of the "LEED for Retail" pilot program. Along with other companies in the pilot program, McDonald's has provided feedback from its green building learnings to the USGBC. McDonald's pilot "green" restaurant in Chicago is estimated to use 25 percent less energy than a traditional McDonald's restaurant.

Key elements in its design and operations include high-efficiency rooftop mechanical equipment and boilers, high-efficiency interior lighting with skylights and daylight controls, water-conserving toilets and plumbing fixtures, permeable parking lot pavement and rain gardens, high-efficiency LED lighting for exterior signage and the parking lot, and green power purchased through renewable energy credits.

Target

As a responsible corporate citizen, Target recognizes the importance of understanding their carbon footprint and identifying ways to minimize that footprint. Consequently, Target puts tremendous focus on best practices for energy-efficient building design and operation. They are committed to doing their part to minimize greenhouse gas emissions. In 18 of their stores in California and three in Hawaii, Target draws about 20 percent of their annual electricity needs from their own rooftop solar-panel systems. Target has achieved a 40 percent energy savings in certain stores by converting overhead store lights from four lamps down to two lamps. Target's Fontana, California, store uses skylights to provide up to 100 percent of the store's lighting needs.

Chipotle

Chipotle Mexican Grill announced it is partnering with Houston-based Standard Renewable Energy (SRE) to install

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solar panels on approximately 75 Chipotle restaurants over the next year. In all, Chipotle has committed to panels that will produce 500 kilowatt-hours of electricity, making Chipotle the largest direct producer of solar energy in the restaurant industry.

Solar panel installations are already underway in select cities including Denver, Austin, Dallas and San Antonio. Markets and restaurants where solar may be used is based on a formula that includes a restaurant's electricity consumption, local utility solar rebates, and its access to direct sunlight.

Kohl's

Kohl's Department Stores has 110 additional Kohl's stores that have earned the U.S. Environmental Protection Agency's (EPA's) ENERGY STAR label, a nationally recognized symbol for superior energy efficiency and environmental protection. This brings the company's total number of ENERGY STAR-labeled stores to 219.

The company also announced that its new store prototype, first used in the construction of Kohl's new-from-the-ground-up stores in fall 2008, received LEED initial certification at the Silver level by the USGBC. Kohl's is the first specialty department store to receive this green building stamp of approval on its new store prototype. The USGBC has also recently certified two Kohl's stores at the Silver level that were built according to the new prototype.

UPS

UPS operates the largest alternative-fuel and low-emission fleet in the industry, with 19,647 such vehicles worldwide. UPS is also reducing its emissions by purchasing 2,949,545 kilowatt-hours of green power in California.

Special thanks for extensive use of "Sustainable Retail Development: New Success Strategies," Jerry Yudelson. Springer Science + Business Media B.V. 2009, written for the International Council of Shopping Centers (ICSC).

Additional thanks to those retail companies included herein whose Web sites were extensively used for information on their sustainability programs, retail developments, corporate social responsibility missions, etc.

Robert E. Mattler, Esq. is director of Green Brokerage at Armada Real Estate Services in West Bloomfield, where he assists developers, builders, property owners, investors and associated professionals with building and retrofitting properties in urban and suburban settings. He is certified as a National Association of Realtors (NAR) GREEN designated instructor. Recently, he also received the Leadership in Energy and Environmental Design Accredited Professional (LEED AP) designation from the United States Green Building Council (USGBC). Bob earned his BS from Michigan State University, his Juris Doctorate from Detroit College of Law (Michigan State University) and his LL.M. in Taxation at Wayne State University.

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