

# Personal Perspectives on LEED Management and Investment

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Jason Tuomey, JT below, is a field researcher for the CoStar Group. In May of 2009, he conducted interviews that provide some in-the-trench perspectives on the sustainability trends in real estate. While too small a sample to become a scientific study, they provide insights into the thinking of those trying to implement the topics of discussion within this journal. As such, we provide some excerpts from three of these conversations.

Amanda Timmons, a LEED Accredited Professional, Founder of Ampajen Solutions, a LEED certification consulting and education company, and associate at Master Klean, a Denver based nightly janitorial service pioneering green cleaning for that market.

**JT:** In the current economic downturn, has the green wave changed its momentum away from the construction of new buildings and toward retrofitting existing buildings?

**AT:** The focus has been moving more toward existing buildings. New commercial building construction has almost ground to a halt. In my opinion, existing buildings should have been the focus for LEED (Leadership in Energy and Environmental Design) from the start. There are so many existing buildings, that newly constructed buildings could never be enough to turn the tide of climate change and energy usage.

**Editors Note:** On average, over the long run we build about 2% new office stock each year, so unless we observe retrofitting of existing buildings, now rapidly increasing, it would take several decades to truly have much of an impact on energy conservation and provide healthier buildings.

**AT:** With regard to the current state of the economy, some property managers have decided to take steps they can afford and establish practices that position them to obtain LEED certification when the economy picks up again in 2010 or 2011. The managers and owners that can afford to certify their buildings now are quietly pursuing it. This would give them an advantage over other property managers who delay making these changes, as they compete for tenants who prefer (or must) have a LEED-certified building to occupy.

**JT:** I noticed in some green projects that many of the materials used were obtained from international sources such as China or Italy. Do you think more value should be placed on using local or regional materials in an effort to reduce the carbon emissions created by transporting these materials?

**AT:** I think it would be nice if that were possible, but for example, here in Colorado we have natural resources, but almost no manufacturing. So it is a kind of “chicken or the egg” scenario. If there were more demand, perhaps supply would come online. But what is interesting with regard to LEED Version 3, the materials section has lost points. So it is becoming less important as far as the existing building rating system goes.

**JT:** Why is that the case, in your opinion?

**AT:** I think they are trying to tackle the issue in a different way. In the former point system known as EBOM (Existing Buildings Operations & Maintenance), 4 points were available for sustainable sites and alternative transportation, if 10, 25, 50, or 75% of the building occupants used some form of alternative transportation to commute to work. In LEED Version 3, alternative transportation can earn a building 3 to 15 points, making this the second largest area of focus for certification, with the first being a building’s ENERGY STAR score. So, rather than considering the materials selected for the renovation of an existing building, the USGBC (United States Green Building Council) is now more focused on the method by which people commute to the building. When the USGBC created Version 3, the focus (at least for existing buildings) was on carbon emissions. Evidently, their research found that material transportation to existing buildings created less carbon emissions than daily commuting.

**JT:** Should there be more tax incentives for retrofitting existing buildings for energy efficiency? Do you think this is likely as a result of initiatives championed by the Obama administration?

**AT:** Everyone is asking about that. Every single property manager seeking LEED certification has asked if there are any tax advantages in performing the renovation. Property taxes and energy use are the two largest operating expenses for any building. Property tax incentives would have a great impact on “green” renovations, and I believe would help to curb the effects of this economic slowdown.

**JT:** Do you see any use of carbon credits in larger developments or portfolios?

**AT:** I have not seen a lot of that right now. What LEED is still focusing on is renewable energy—either buying renewable energy offsite or putting something onsite. They do have a credit for something called “emissions reduction reporting.” That is getting property managers of buildings to share how much carbon they have reduced by having a good energy performance score (through ENERGY STAR). This may help to build the market for carbon credits by having people report their reductions. Less efficient properties could then buy credits saved by those buildings that are more energy efficient.

**Editors Note:** Third parties that pool credits may be a way for small players to participate in the global market.

**JT:** What is not measured by the current LEED standards that you think should be, and that is important to tenants?

**AT:** When LEED for existing buildings first came out, indoor environmental quality had the most points. That is basically anything you can do to enhance tenant productivity. Originally there were 23 points in that credit category. That was reduced for Existing Buildings Operation and Maintenance, and reduced again for LEED 3.0 2009.

What tenants want to see, according to property managers, are LEED buildings that have a healthy indoor environment and buildings that have reduced operating expenses. What is good for them is the reduced liability and health costs. It is interesting that indoor environmental quality is becoming less and less important in the current rating system. Green cleaning was cut by approximately a third. Things like tenant control of the systems has been reduced. It seems the focus on what is good for tenant productivity is becoming less important. They (USGBC) are looking at the building's impact on the environment, instead of what will make people more productive.

**JT:** Do you see any conflicts between state and local building codes and the green movement in buildings?

**AT:** I think things are moving in the other direction. State and local codes seem to be aligning with LEED standards. LEED was never written to become code. I had a class in the city of Sacramento, and they already were mandating that any new construction be certified LEED Silver or better. The movement seems to be that local government is taking off with the green movement and delegating a great deal of power with the USGBC. That pendulum in certain cases seems to swing too far, with the adoption of some rules that are difficult or cost prohibitive for businesses.

**JT:** You mentioned that companies have been reluctant to perform a waste stream audit. What is the incentive in auditing the waste stream? Is there not enough reward in the grading system to make it worth doing?

**AT:** The waste stream audit is only worth one point. All that we are trying to do is quantify how well the tenants are using the building's recycling program. The reason for doing this is to be able to go back to the tenant population and inform them of the amount of Styrofoam they use, for example, and discuss possible substitutes, such as glasses and ceramic plates. Or perhaps there is a lot of paper that is not making it into the recycle container for some reason. We then look at how to position things differently and consider options to increase the amount recycled.

**JT:** When comparing the current LEED Accredited Professional and the new Green Associate accreditation, which is more intensive or more valuable?

**AT:** They used to allow anyone to become an Accredited Professional. Now there are over 100,000 Accredited Professionals in the United States. I am not sure exactly where the idea came from, but they wanted to distinguish between somebody like myself who works for a janitorial company, and wanted to focus on just that aspect, versus someone who could be a consultant, who could actually take someone or a company through this process. The USGBC has decided to

have a three-tiered education base now. So if you have not worked on a LEED project, in which you actually work toward getting a building certified, the only thing you can become now is a LEED Green Associate. That is based upon an overall test covering sustainability, construction, operations and maintenance, and health. Although it is only the first level of education, it covers a huge scope of information.

The second level is the LEED Accredited Professional. That level, you can only now achieve if you have worked on a project team, and is focused on one rating system in particular (operations and maintenance, building construction, or interior construction).

The third tier, called a LEED AP Fellow, has not yet been developed.

**JT:** What are some new technologies and strategies affecting water consumption, and are they cost effective?

**AT:** Water consumption has increased in importance with regard to the LEED rating system. It used to only be worth a maximum of 5 points. Now it has increased to 14, at least on the existing building side. What we have seen here locally is a huge amount of increases in rebates from Denver Water. The rebates are for new toilets and urinals, which are 1.6 and 1 gallon per flush (respectively) installed. There was a big drive toward waterless urinals, but word of mouth seems to have dissuaded some people from putting those in. There have been complaints of odors. Some people love them, some hate them. But skepticism prevails in the market for that product. We have heard rave reviews about new urinals that only use a cup or a pint of water per flush, because it still dilutes urine enough to dispel odors.

A lot of people have been looking at simply retrofitting toilets, especially with the slow economy. There are retrofit kits that, for example, bring the old 3.5-gallon toilet down to 2.4 gallons per flush. The building engineering teams must then work to optimize pressure to make sure everything gets flushed down in one flush instead of multiple attempts. Incentives and rebates have been critical in Denver to generate the high number of retrofits of toilets and urinals.

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Interview with Kelly Cook of Equity Office, an affiliate of the Blackstone Group, LEED Accredited Professional, property manager of approximately 812,000 square feet of office space in seven buildings in Centennial, Colorado.

**JT:** My assumption is, with the economic downturn, most commercial construction has ceased unless it is too far along to stop, it is a government building, or the rare case of a business expanding. Does this turn the focus of the LEED/“Green”/sustainable movement away from new structures, and toward sustainable building operations, and/or retrofitting existing buildings with energy-efficient features?

**KC:** I think that the focus has shifted a bit, but there will still be an interest in green construction when development picks back up. The movement toward

sustainability is here for the duration. But certainly with development slowing down, and construction coming to a halt, my focus is certainly on operations, and looking for ways to incorporate green incentives and programs into day-to-day operations. The big thing for us though is that with things being so tight, and with tenants not as readily available to fill vacant space, we are being pressured to cut costs. We find ourselves in between a rock and a hard place, so to speak. What we are doing is, rather than considering full-blown retrofits, is looking at ways as we are spending our budgeted dollars, to incorporate green practices that are not too much of a hit to our budget. We are finding a lot of things that we can do that are either low cost or no cost and incorporating these into our day-to-day operations. This way, at some point down the road, we are already half way there, should we decide to pursue a LEED certification.

**JT:** It sounds like a lot of property owners and managers are positioning themselves for when the market does improve, to be able to obtain LEED certification.

**KC:** Exactly. We have a written sustainability program in place. Green cleaning is an example where you can use cleaning products and equipment that do not cost any more money over time. We select vendors that have those programs in place, so that they can easily put them into practice in your building. This puts pressure on the vendors that we are selecting. I am getting a lot of calls from vendors asking what they can do to be on a preferred bid list. I then ask them to show what they know about LEED and green practices, and how they can help me incorporate those practices.

**JT:** Do you find that the chemicals used in green cleaning work as efficiently and cost effectively as the products used previously?

**KC:** For the most part they do. There are certain circumstances when you would have to use harsher chemicals, though typically we are able to find a green solution to clean the buildings just as well.

**JT:** Have you learned any lessons from trying products or practices that did or did not work as intended?

**KC:** Recently, I was talking with a carpet supplier over the course of 6 to 9 months in which we had discussions about what to do with all the carpet we pull out when changing tenants. When we began the discussion, it was difficult to find anyone to recycle the carpet. Now the vendor has found a source for recycling virtually all the carpet that previously would have gone straight to a landfill. I think as one continues to press the vendors and suppliers to find green alternatives, they get more creative and come up with options that had not been available or that they were simply not aware of.

**JT:** Do you put recycling goals into lease provisions in any way?

**KC:** We do track recycling. We get quarterly reports from our trash company that shows percentages that we are either trashing or recycling. This does not tell us exactly what is going in the recycling stream or the trash stream. That would be

the next step to take. We are tracking and sharing the information with our tenants to show how much of what they discard is actually getting recycled, versus getting thrown in the trash. We have set a goal of recycling 70% of what gets thrown out. We are able to compare actual results with that goal over time.

We do not put green provisions in leases, at least not yet. We have found that initially a lot of our tenants are very resistant. We found that with just a little bit of (tenant) education, they have really jumped on the bandwagon with us. Now that we are getting more buy in, and there will probably be more focus on the lease language, and from an ownership perspective, more of a requirement rather than a choice. We are looking at general janitorial things, like day cleaning, which saves a lot of electricity. You have to get the tenant buy in for now, because the leases do not yet require these measures. We are definitely looking at lease language changes as we are finding things working or not working.

**JT:** How would you mandate green practices? Would you give them a minimum benchmark as soon as you can easily quantify recycling with information from your waste and recycling company, for example?

**KC:** We would have to put something in place that we have already demonstrated was readily achievable.

**JT:** Do you notice any difference in morale or productivity among tenants when they know they are in a green building?

**KC:** I have noticed that there is usually a group of individuals, especially in larger companies, who are really excited about this. When they know you are implementing green practices, they ask if they can do this or that also. They run with it and really charge up the rest of the employee base. There is also a block of people who just do not want to be bothered.

**JT:** Do you find that most companies have a designated individual charged with finding green things they can do?

**KC:** Yes. They typically have small task forces looking for ways participate in the whole green movement.

**JT:** Does your company have a green mission statement?

**KC:** We have a sustainability program. It takes elements from the USGBC LEED program, which we can easily implement in day-to-day operations. Some examples are the green cleaning program, our procurement practices for tenant improvements, and indoor air quality. This gives a guideline to work toward in our daily operations of a property.

**JT:** You mentioned procurement. Do you mean a vetting of your vendors?

**KC:** Yes. For example, when we are looking for office supplies or furniture, we buy recycled paper and furniture made from recycled content or renewable energy sources. We have a whole list of things we look for first, which do not impact our budget significantly.

**JT:** Do you see any of these practices translating into increased rent?

**KC:** More and more we see lease proposals from prospective tenants containing a question as to whether the building is LEED certified or if there is a LEED Accredited Professional on staff, or what kind of green programs are in place, such as a recycling program. We are able to explain what we are doing as we respond to those questions. Even if a building is not LEED certified, there are tenants out there looking for companies that are interested in green building operations. They put some weight into that aspect in their overall decision about where they are going to locate.

**JT:** What are some of the techniques and strategies you employ with regard to water consumption?

**KC:** Our buildings are fairly new, so were fitted with low-flow toilets in all of the buildings. We did switch out some of the urinals to a lower water consumption model. We are not monitoring any of the inside plumbing fixtures at this point. We have installed sensors so that when it rains, the landscaping sprinklers do not come on.

**JT:** What about electrical and lighting fixtures?

**KC:** We have a campus here with a variety of old and new buildings. We converted one of our older buildings to lower wattage fluorescent bulbs. The newer ones have energy-efficient systems already. We have automation systems in all the buildings. We have economizers for the rooftop heating and cooling units, which utilizes outdoor air as much as possible during the year, to take advantage of free cooling. A lot of our buildings have occupancy sensors, so the lights are off unless someone is using the space. Our computerized automation systems allow us to run reports so that you can determine trends in usage. This way you can decide to have rooftop units to come on at optimum times of the day or the week. This allows you also to address vacant space with a wider range of heating and cooling, so that it hardly is used at all, since comfort is not an issue. You can have lighting set up automatically on these systems as well so that you determine on and off times.

**JT:** When you have retrofitted older buildings with more energy-efficient lighting ballasts and bulbs, has it been cost effective, and if so, how long did it take to recoup the costs?

**KC:** It has definitely been cost effective. There are also rebates from Excel Energy, our local provider. I would say that a two-to-three year payback has been the calculation for us. We are looking for less than a two-year payback when considering a retrofit. Typically we are not too far off of that.

**JT:** So solar would be out of the question for now?

**KC:** We always keep an eye on things like that, but for our particular application, it would be difficult.

**JT:** I know some of your tenants encourage carpooling, but what can you as a property manager do to encourage alternative transportation?

**KC:** It really is up to the employer or tenant to encourage employees to use alternative transportation. We have no control over that. The nice thing for us is that we are located right on a light rail stop, and have multiple bus stops on our property. This really makes it easy for employers to encourage their people to utilize those transportation methods. Purely by our location, we qualify for LEED points. We find our location at the top of the list for employers who value alternative transportation.

**JT:** Do you have any general lessons or strategies with regard to going green in building operations?

**KC:** I would say that this whole movement to “go green” is not just a fad. It is something people are really interested in. It may have been pushed to the back burner for now due the economic slowdown. But when things hopefully get stronger, we will see this charge right back to the forefront with a push for more and more companies to do what they can. There is a lot of legislation getting kicked around, so we will probably see more things become law in the future.

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Interview with Shawn Murphy, LEED Accredited Professional, Vice President & General Manager, Gubb & Ellis Management Services (GEMS), Denver, Colorado.

**JT:** Shawn, could you tell me about yourself, how much property you manage, and who your clients are?

**SM:** I am the vice president and general manager for Grubb & Ellis management services here in Denver. I oversee a portfolio of roughly 2.4 million square feet, which encompasses seven buildings in Colorado and Nebraska.

**JT:** When does common sense conflict with the green movement?

**SM:** Let’s say you have a large campus environment with 80,000 square feet of roof space. It is sitting there, open, covering an atrium. That might be the perfect place to do some type of green roof project. I really do think it comes down to each individual building. Implementing some of these projects is costly. The capital markets crashed two years ago, when LEED was the hot topic and your peers were discussing getting their building LEED certified within the next couple of years, whether or not they fully understood what that meant. Now many ownership structures are left strapped for cash, and to do these large improvements for the purpose of LEED certification is not in the cards at this point.

Grubb & Ellis has just launched our sustainability program or plan, making a large push nationally to look for low cost or no cost green strategies to implement, versus the LEED certification projects requiring large capital outlays. These are basic building operation considerations, such as energy management, start and stop times on all equipment, lighting schedules, automation of lighting, and for tenants occupying larger equipment spaces in buildings, the sub metering of all utilities. When looking at the low cost or no cost measures, consider a recycling program and waste stream audit, with eventual LEED certification in mind. In a

building in downtown Denver, we implemented a recycling program for almost 6,000 building occupants. We removed all garbage cans and replaced them with recycling cans, gave them extensive education on what can be recycled on a daily basis. With items they cannot recycle, they must walk to a common area such as a kitchen or break room to discard other items. There has been a large and painful learning curve with that program. But now the tenants are starting to see the results we publish on a quarterly basis.

**JT:** How exactly did you disseminate this information to the tenants in a way that you knew it was absorbed and understood?

**SM:** This was an extensive project. Over a six-month period, we began meeting with our major tenant representatives or contacts. We met with them on a floor-by-floor basis to tell them what we were going to do and the timeline of the phased approach that we were to roll out. Then we followed up so that when we did the roll out, every employee got a new trash can, a letter on their desk with a graphic that described everything they could recycle through the program. In our lobby area, we set up a 40-foot table of everything they could recycle, and a 3-foot table with the items they could not recycle. It is a single-stream recycling program.

You are not only educating the tenants, but also the janitors on how to dispose of materials and recycle them. Through this program, we went from recycling zero as a building, to 55% of our waste stream right now.

**JT:** Do you foresee or have you used any lease provisions that encourage or mandate these or other green practices?

**SM:** No we have not. We have not included anything with regard to green practices in our leases. But I expect that a number of companies will probably be including that in their lease structure soon.

**JT:** Have you used green cleaning services?

**SM:** Absolutely yes. I think that cleaning today, other than using day cleaning or using battery gel pack vacuums, can cause you to run into either cost constraints, or interruption of tenant operations. Everything else, such as green seal cleaning products, are now available at no increased cost over non-green products used previously.

**JT:** Do you find that these products work just as well?

**SM:** Yes.

**JT:** Do you find a lot of companies have a designated person on staff who is charged with finding ways to implement green strategies?

**SM:** Yes, the majority of tenants here in downtown Denver have a green, or sustainability team.

**JT:** What do you think the government should be doing with regard to green buildings, and where might they be over reaching?

**SM:** First, you cannot mandate this. With regard to the bailout program released this past fall, there are a lot of dollars appropriated for energy retrofits. Also, there are rebates the utility companies are offering. But is this enough to surmount the financial hurdle and be able to make the right decision? I am still not seeing anyone taking advantage of these programs. There are a lot of ownership groups who want a twelve-month payback on an energy retrofit. The thing we need to insure as building owners and commercial real estate brokers is that these regulations do not get mandated.