

A Global Real Estate Services Company



- RUSH to “Green”
- USGBC has more than 13,000 members including groups such as
 - **Boston Properties, Inc.**
 - **General Electric Corporation**
 - **Wells Fargo**
 - **City National Bank**
- Wachovia Bank announced it will build 300 new green branches by 2010
 - They expect to save \$80,000 per branch in construction costs
 - Anticipate operational savings of 20% in first year



- Adoption of green/energy efficient strategies by major corporations worldwide:

- **Major survey by CoreNet Global and Rocky Mountain Institute**

- **ABN AMRO**
- **Herman Miller**
- **Nokia**
- **Oracle**
- **Toyota**
- **Adobe**
- **Bank of America**



- Survey firmly established market link between energy efficiency and concept of sustainability
- Identified a number of energy efficient strategies
- Energy efficiency is a BIG one, but only one

- **Banner Bank Building**
 - First LEED Platinum certified spec office building in the US
 - “High performance” sustainable building
 - Built in Boise, Idaho
 - Developer is Gary Christensen
- A video on the practical applications of sustainable principles and practices.....

- Integrates all aspects of systems and architectural design up front
- Incorporates consideration of both internal and external factors with greater detail
 - Orientation on site
 - Waste water treatment/water conservation measures
 - Natural vegetation
 - Impact on public and private infrastructure

“High Performance” equals Main Goal

- Though environmental factors a primary consideration, maximizing building performance is ultimate goal
- Historical perspective has not been that how a building “goes together” has potential to:
 - Reduce energy consumption
 - Reduce maintenance costs and reserves
 - Improve NOI
 - Mitigate risk (early obsolescence or marketability)

What does this mean for the real estate community?

Thomas Friedman's April 15, 2007 article in the NYT entitled "*The Power of Green*" noted Stanford President John Hennessey's favorite quote from John Gardner, founder of Common Cause, in referring to confronting climate change/energy efficient issues, as: **"a series of great opportunities disguised as insoluble problems."**

- This is a HUGE opportunity for the anyone selling, leasing, valuing or financing/underwritng real estate
- Market is Changing Rapidly
 - Technology is changing
 - Legislation is moving quickly

How Might This Impact your Work?

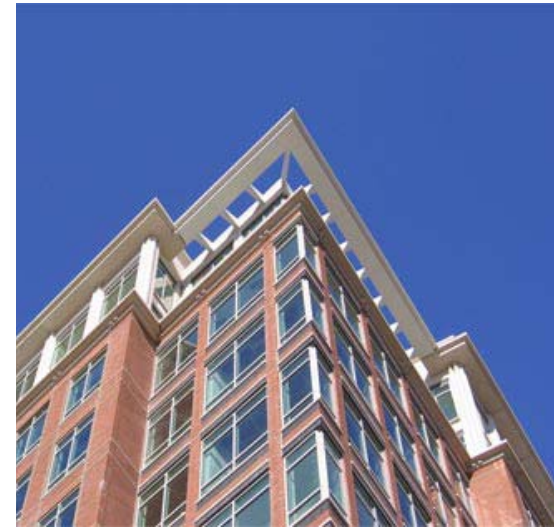
- If buying or selling – client motivations
 - Goals?
 - Environmental?
 - ROI?
- If leasing – leasing strategies & structures
 - Will lease structure in place accomplish goals?
- If financing – what’s different & related risks
 - Who’s going to loan on property?
- If valuing – differences from traditional construction and impacts on value
- If investing – ALL OF THE ABOVE

- Real WinWin specializes in energy efficiency strategies:

“When you purchase an income-producing property, you *get* the ‘sticks and bricks’.... but what you’re *buying* is a box of leases.”

Lease Specifics Often Determine Options/Possibilities

- Tenant improvements
 - How can allowances be utilized?
- Maintenance strategies
 - Low voc paints, carpeting
 - Cleaning products and practices
 - Daylight cleaning
- Recovery provisions
 - Who pays for what?
 - Is sub-metering possible?



Energy Efficiency = Low Hanging Fruit

- If looking at sustainable strategies for a piece of real estate, energy efficiency is easiest to quantify
 - Savings are:
 - Measurable in kwhs
 - Quantifiable in \$\$
 - Able to be incorporated into a financial analysis
- Unlike harder to validate concepts of:
 - Tenant satisfaction
 - Worker productivity

Leases 101

What Kind of Leases are You Dealing With?

- **Gross**
- **Net**
- **Expense Stop/Base Year**
- **“Standard” Leases**
 - Local/Regional Variations
 - Green clauses will address specific landlord and tenant objectives



Lease with Expense Stop/Fixed Base

High Performance Building

Energy Cost	\$2.00/SF
Expense Stop	1.75/SF
Tenant Pays Over Base	.25/SF

Traditional Construction

Energy Cost	\$3.00/SF
Expense Stop	1.75/SF
Tenant Pays Over Base	1.25/SF

Where would you or your tenant want to be?

Lease Considering a Retro-fit

Year 1

Energy Cost \$2.25/SF

BEFORE Retro-fit

Expense Stop \$2.10/SF

Tenant Pays .15/SF

Landlord Pays 2.10/SF

Year 2

Energy Cost \$1.80/SF

AFTER Retro-fit

Expense Stop \$1.80/SF

Tenant Pays .00/SF

Landlord Pays \$1.80/SF

Tenant Saves \$.15/SF

Owner Saves \$.30/SF

Looks Good – But Does It Pencil?

- **Private sector requires financial feasibility**
- Whether it's new construction or an existing building:
 - Identify the costs – hard and soft
 - Identify the benefits – \$\$ and energy savings
- Use DCF (discounted cash flow) analysis for foreseeable future – not just simple payback
- Assess costs and potential benefits over time
 - Identify costs vs. savings to owner
 - Identify costs vs. savings to tenant(s)

How will you know?

- **The Language**
 - Right sizing
 - Commissioning
 - Trade-off analysis versus value engineering
 - Life cycle analysis

- **Integrated Approach**
 - Whole building approach
 - Integrated team
 - Integrated design
 - Integrated systems
 - Integrated leasing strategies

- **This is about Best Practices**
 - High performance
 - Best possible product for consumer and environment



Need to Understand the Differences.....

What are the Potential Benefits?

- **Different “Capital Stack”**
 - Will include incentives, at least initially
- **Preferred financing**
- **Lower costs**
 - Maintenance and Operating
 - Capital Reserves
- **Recognition of value may take different forms**
 - Density bonuses
 - Quicker absorption
 - Better tenant retention
 - Less down time between leases
 - Lower TI's



■ Carrots/Incentives

– Entitlement Related

- Density bonuses
- Waiver or reduction in fees

– Permitting Process

- San Francisco
- Chicago and others

■ Sticks

– Growth Restrictions

- Arizona – water requirement

– Building Code Changes

- Washington DC – LEED
- Portland DJC



What About the Risks – If You Do?

- **Lenders and Institutional Investors**
 - Just as interested in what could go wrong
- **Lack of empirical data**
 - No cap rates - yet
 - Developer projections
 - **Commissioning**
- **Availability of Qualified Professionals**
 - Contractors, Service Providers
 - Property Management
 - Appraisers



What About the Risks – If You Don't?

How Will the Market View Your Decision?

- Early Obsolescence
- Reputational Risk
- Environmental Risk
- Regulatory Risk
 - Building codes
 - Taxation/penalties
- Diminished Capital Investment
 - Bruce Kahn, ecological economist, Citicorp Global Markets
- What happens if you don't build a high performance building? Or retro-fit existing assets?



How About the Really Big Questions.....

- Is it worth more? Am I going to get more rent?
 - **IT'S UP TO THE MARKET!**
 - Currently limited sales data/cap rate info
 - Need to know your market
 - If your clients aren't asking you – you should be asking them
 - Geographically specific
 - Does your market recognize these practices?
 - Is there demand – or greater demand?
 - Simple payback analysis **won't** provide accurate assessment of long term benefits/value

- Number of tenants were pulled from competing Class A buildings as a direct result of BB's sustainable approach, particularly of better air quality and working conditions
- Significant savings through innovative integrated design strategies
 - Savings in steel costs and applications
 - Under floor, low flow air created more comfortable space and reduced energy costs by more than 50%
 - Demountable walls and carpet tiles save time and fit-out costs
 - Lack of columns increases tenant floor space & plan flexibility
 - Reduced building envelope size, floor heights
 - Significant tax benefits as a result of design implementation

Other Examples - Limited but Growing

- **OHSU – River Building One**

- LEED Platinum
- \$3.5M Savings in MEP
- Natural ventilation
- Water treatment



- **The Henry**

- Fast absorption
- Higher price points
- Highest re-sales

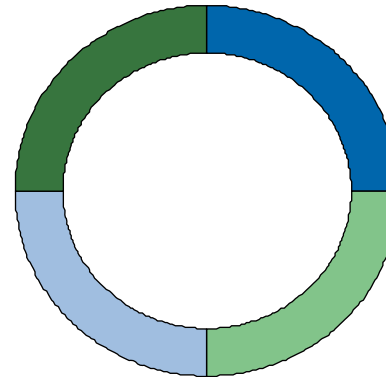
- **The Louisa**

- Quicker absorption than competition
- Higher rental rates and occupancy
- Better tenant retention



How Can We Best Help Our Clients?

- “Holy Grail” of sustainability
 - Integrated Teams
 - Integrated Design
 - Integrated Systems
 - Integrated Strategies
- Make sure your client has the right team members
- Whether leasing, selling, buying, valuing or financing:
 - Don’t forget the financial/real estate analyst
 - Consider market and financial issues along with design parameters and goals



THANK YOU!

- Theddi Wright Chappell
CRE, MAI, FRICS, AAPI, LEED AP