



## Commercial Office Building LEED Accreditation: An Owner's Perspective

### Background / Goals

*As the popularity and acceptance of the green building concept continues to grow, many owners and developers of commercial office projects are struggling to come to terms with whether or not it is advantageous for them to pursue LEED accreditation.*

Leadership in Energy and Environmental Design, more commonly known as LEED, is a nationally recognized accreditation procedure and benchmark for the design, construction, and operation of green buildings. Since its founding in 1993 the U.S. Green Building Council has continued to develop and improve its rating system for the energy and environmental performance of buildings. It is now commonly accepted that green buildings certified by the LEED system have the following benefits:

- Lower Operating Costs
- Improved Occupant Health
- Enhanced Occupant Physical Comfort
- Improved Occupant Productivity
- Reduced Pollution and Landfill Waste
- Reduced Fossil Fuel Dependence
- Reduced Water Waste
- Decreased Ecological Impact

Research will focus on assessing owners' views of green buildings and their willingness to accept higher upfront costs in order to achieve life cycle savings and the additional benefits listed above. Do owners believe that tenants are willing to pay for the increased up-front construction costs knowing the long term benefits? Do owners believe that a building being green is an important criterion for tenants when deciding on which commercial office space to rent? Are LEED accredited buildings easier or more difficult to rent? Industry research will attempt to assess these questions and more.

By assessing owner's and developer's views on LEED accreditation, one can begin to develop an understanding of why LEED buildings are or are not growing in popularity within the commercial office sector. By beginning to understand the answers to the questions listed above, one can begin to develop assumptions on industry trends.

### Resources and Tools

An online survey was developed in order to create a less time intensive means for participants to complete the questionnaire. The survey was developed using SurveyMonkey, an online survey creation and analysis website. A copy of the survey can be found in Appendix A.1. The survey was specifically designed to be provoking for both owners who are experienced with LEED accreditation as well as owners who have yet to participate in the construction of a LEED accredited project.



The survey was broken down as follows:

- Page 1 of the survey was used as a means of evaluating the survey participant's experience with the LEED process.
- Page 2 was directed towards industry members who do have LEED experience. It evaluated what levels of accreditation their past projects had pursued as well as assessed their views on LEED rental rates and their ability to find tenants relative to similar, non-accredited office buildings. The survey sought to explore specifically how accreditation has benefitted their past projects. Finally, owners were asked to elaborate on how they go about determining whether or not a project should pursue accreditation.
- Page 3 was directed towards industry members who do not have LEED experience. It assessed what factors have kept their firm from pursuing accreditation as well as whether or not they would be interested in pursuing LEED accredited projects in the future.
- Page 4 was applicable to all participants and included questions that evaluated typical utility agreements and how, if it all, this affected the decision to pursue accreditation. This page also began to explore how owners felt tenants were going to respond to the industry trend of LEED accreditation.

The survey was distributed via email to a list of contacts. Many of the development company contacts were obtained with the help of members from within the general contracting community. It is estimated that the survey was distributed directly through myself and indirectly through industry members to approximately twenty owner and development company representatives. Thirteen responses were collected. Survey results can be found in Appendix A.2.

## The Experienced Owner's Perspective

*How to decide whether or not to pursue accreditation?*

Based on the responses collected from the survey participants with prior LEED experience, the decision on whether or not to pursue LEED objectives fell into two primary categories and two secondary categories.

PRIMARY CRITERIA	SECONDARY CRITERIA
Financial Analysis	Market Trends
Corporate Policy	Target Tenant Profile

**Corporate Policy:** A number of respondents noted that their corporate policy dictates that all development projects are required to obtain LEED accreditation. One company required a minimum silver rating in all projects, even including buildings previously occupied and now being repositioned on the marketplace. This is a bold company strategy that can be extremely costly in terms of retrofitting and upgrading an existing structure. As was indicated though, LEED is becoming the norm, and it is simply "the right thing to do." For some firms, cost is not of primary importance.



**Financial Analysis:** The most common means for determining whether or not to pursue accreditation is to complete a cost/building performance assessment or a rate of return analysis. Most companies decide on whether or not to pursue accreditation on a project by project basis. Though there are environmental benefits, ultimately most companies are only willing to pursue LEED if it is financially more profitable than a non-accredited equivalent. If the project is profitable and it makes sense to pursue LEED objectives, the company is very willing and eager to pursue accreditation.

**Market Trends:** Firms want to stay competitive. If other companies are pursuing LEED, they too want to stay competitive and likewise pursue similar, if not more aggressive, accreditation levels. As much as LEED is a means of helping the environment, reducing the impact of buildings, and reducing energy demand, from an owner's point-of-view, it also a strong marketing tool to set their building apart from another.

**Target Tenant Profile:** The decision to pursue LEED is sometimes evaluated based on the known or anticipated tenants. If the tenant demands a LEED space, the decision is clear. Similar to some owners only developing LEED buildings, some tenants also will only occupy LEED spaces. This is often the case when working with governmental agencies or contractors. One survey participant responded that many "tenants have a corporate awareness; even a corporate directive about occupying LEED certified buildings, at a minimum. It's a corporate iconic statement about meeting energy and environmental obligations." If the tenant does not have such a policy though, the decision is a bit more convoluted. Will the anticipated tenant be cognizant of the LEED designation? From the tenant's perspective, will it differentiate their firm from another? Again, marketability is a strong consideration not only from a developer's perspective but from an individual tenant's perspective as well.

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*--Survey Response # 11*

### *The Current Rental Environment*

It was intriguing to discover that the vast majority of LEED accredited rental properties were not more expensive than their non-accredited equivalents. This can be seen in Figure 3.1. In fact, the rental agreements are typically equivalent in price. This was true



regardless of the rental utility agreement. If the utility was paid by the landlord, the owner would see the cost savings to offset the higher construction costs and thus have no need to increase rental rates. On the other hand, if the utility was paid for by the tenant, which is often the case, LEED accreditation was seen as a marketing tool to set one building apart from another. LEED accreditation is a way of making a property more competitive and enticing for a prospective tenant. Increasing rental rates to offset construction costs is generally not done, regardless of the utility structure.

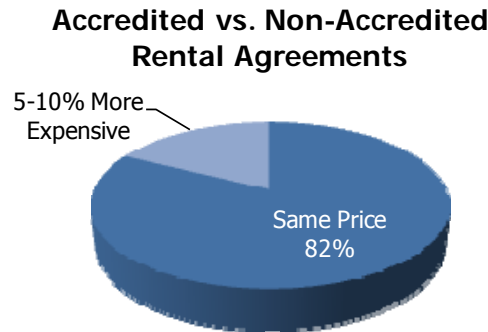


Figure 3.1: Rental Agreement Analysis

Going along with the concept of marketability, it was seen that LEED accredited projects were generally quicker to get off of the rental market. As was mentioned, LEED provides a means of gaining a competitive advantage in an increasingly competitive commercial office building market. Therefore, projects that are accredited and offer the same rental agreement can be expected to lease sooner than their traditional counterparts. This can be seen below in Figure 3.2.

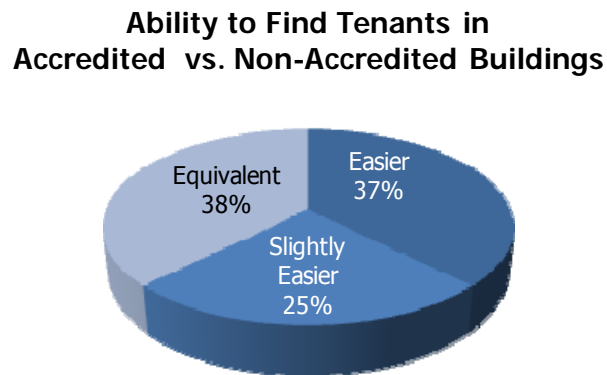


Figure 3.2: Leasing Difficulty Analysis

*The Benefits of LEED Accreditation: Real World Experiences*

Much has been said in the industry about the benefits of LEED accredited buildings: lower operating costs, better working environments, reduced impact on the earth, etc. Hearing reports from individuals who have worked closely on LEED projects and have seen the



results firsthand was of interest. As was anticipated, development company representatives had only positive things to say about their decision to go green and pursue LEED accreditation.

Overall, respondents noted the overall improvement in building efficiency and operation. Indeed, many have seen reduced utility consumption. This has in term lead to lower operating costs. Representatives have also noted that occupants are in fact benefitting from the improved indoor environment. Productivity is increasing, as is employee attitude. All of this can be attributed to the higher quality of space within green buildings. The improved mechanical systems are a large contributor to occupant happiness within their LEED building. All of this has been accomplished without a negative impact on the architecture of a building. Indeed, owners and tenants are seeing the benefits that have been promised within their LEED accredited office buildings.

## **The Inexperienced Owner's Perspective**

When discussing the issue of accreditation with owner's who have never completed a LEED project, the number one concern that was mentioned amongst these individuals was cost. Every one of the survey respondents noted that cost was a primary issue that has prevented their firm from pursuing such a project. Though other preventative criteria were mentioned as well, cost was the number one item on everyone's list. There is a concern that increased first costs cannot be overcome. Numerous survey participants mentioned that if higher first costs are not offset in a relatively short payback period, the idea of LEED accreditation is discarded. The only other criterion that was mentioned as an initial hurdle to entering the LEED market is the effort to document.

There is a bit of a catch twenty-two within the thought process in that on one hand the owner seeks to stay financially competitive within the rental sector by not increasing its upfront costs and having to pass them on to the tenant; yet on the other hand, they acknowledge that the industry is adopting LEED and LEED projects are seen as competitively advantageous from a marketing perspective. In other words, the owner wants to stay competitive without increasing its costs; yet the only way of staying competitive is to pursue LEED and indeed spend more upfront.

Despite current hesitation, all of the respondents were interested in pursuing a LEED project in the future if the conditions were right. Many see that in order to stay competitive they indeed must look into pursuing LEED. Many tenants are demanding LEED accredited spaces and as long as the rental market is capable of accepting the added upfront costs, these development firms would be very interested in entering the market to construct LEED accredited projects.

Also of note, some companies acknowledge the benefits associated with sustainably designed buildings and incorporate green features into their projects without getting the project accredited. The reason they choose not to have them accredited by LEED or another accreditation agency is because of the added costs and effort associated with the accreditation process.



## Tenant Evaluation

It was common among survey participants to believe that tenants are unwilling to pay higher rental rates to occupy LEED accredited spaces. Given the current market conditions, LEED is a differentiator and a means of setting one building apart from another. Most tenants are not willing to pay more for a LEED accredited space, at least one that is only certified or LEED silver. It's almost as if LEED accreditation is viewed as a building feature that is weighed along with other building components to create an entire building package.

Respondents did note though that a tenant's willingness to pay more to occupy a LEED space is somewhat dependent on the client's size. Government tenants and large firms with a corporate directive or policy may be more inclined to pay more for a LEED space. Just as owners can use LEED as a marketing tool, tenants as well may be willing to pay more for a LEED space knowing that it will improve their public image with their own clients and potential employees. On the other hand, smaller cost sensitive tenants that are more bottom-line driven will be less inclined to pay more for LEED space. As the market progresses even further into accrediting more LEED buildings, market conditions may change that will warrant firms paying more for LEED space, but as of now, overall, rental rates are remaining the same as non-accredited equivalent projects.

## Conclusion

Based on the survey results, it is clear that LEED accreditation has been, and will only continue becoming, an increasingly important trend in the commercial office sector. From an experienced owner's perspective, seeking LEED accreditation is either an important company policy or a project by project evaluation. Regardless, owner and development company representatives agree, LEED buildings are extremely marketable. The continued growth of the commercial development sector will follow trends of global environmental awareness. Though LEED has been an ever growing topic of conversation, it appears as though the industry is just at the cusp of accepting the U.S. Green Building Council's rating system. LEED accredited projects will only continue to grow popularity not only from an owner's perspective but for a tenant's point-of-view as well.

For inexperienced owner's, they realize as well that the industry is only continuing to gain acceptance of the accreditation system. They realize that the future will demand green design initiatives and in order to remain competitive, they too will need to accept the changes taking place within the industry. Nonetheless, at present, many companies still are hesitant to accept higher construction costs even knowing that lifecycle savings are a strong possibility.

As the world continues to face more and more pressing environmental concerns and as the dependence on dwindling international fuel sources continues to drive fossil fuel prices upward, the day of environmental conscience sustainable design has arrived. Sustainable designs are becoming more and more attractive from a tenant's and from an owner's perspective. The idea of LEED accreditation is just beginning and will not fade anytime soon. The market demands it and the popularity of LEED accredited building will only continue to increase.