

THE STATE OF BUSINESS IN COASTAL GEORGIA ■ SUMMER '09

# currents

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## HARNESSING THE POWER OF FACEBOOK



# It's easy being green – even for construction, real estate sectors

Everywhere you turn these days we are bombarded by advertisements geared toward social responsibility through environmentally-friendly products and behavior. One key aspect of the “green movement” is often overlooked - the real estate component. The Environmental Information Administration reports that buildings represent 72% of all U.S. electrical consumption, 39% of energy use, and 38% of all CO<sup>2</sup> emissions. Are there alternatives to traditional construction methods for building construction and renovation? Green building and rehab will benefit us all in future years to come.

Green building and rehab are broad terms, but in general, initiatives aimed at saving energy and sustainability through construction activities qualify under this terminology. The U.S. Green Building Council has an internationally recognized Leadership in Energy & Environmental Design (LEED) certification program that measures a buildings energy savings, water efficiency, CO<sup>2</sup> emissions reduction, and stewardship of resources. Our firm has recently been involved in the valuation of three new LEED projects in Southeast Georgia. All of the structures feature some key design qualities often

seen in energy efficient design: concrete tilt-up walls with natural illumination, recirculation of water for building cooling, recycled materials, and white membrane roofs. This partial list of features combines energy cost savings for the owner and tenants, along with components that have less of an impact on the environment.

Studies have shown that green projects, new or rehab, typically require 2% to 6% more initial cost than comparative non-green projects; however, the long-term cost benefit typically outweighs preliminary investment. Studies have found that green rehab buildings have a 15% annual energy savings and payback of energy efficient features occurs in 0.7 years. New construction had similar energy savings, but payback was longer, a 4.8 year average.

Social responsibility is greatly driving businesses - large and small - to green construction, giving them positive recognition in a corporate environment. For investors, however, financial incentives are the main motivation for going green. Office, retail, and industrial owners often lease buildings to tenants on net terms, where the tenant reimburses the landlord for utilities. In effect the energy savings are passed through to the tenant and not the landlord. However, in a competitive rental environment green buildings often see elevated base rent levels, as Common Area Maintenance (CAM) fees are reduced, equalizing effective rent paid by the tenant to a market level. Consequently, this raises the bottom line Net Operating Income (NOI) to the property, positively impacting the owner's investment.

There are a number of tax incentives available for the commercial real estate green movement. Today, commercial building owners can take a tax deduction of up to \$1.80 per square foot for new or existing commercial properties that save at least 50% of the heating and cooling energy of a building that meets applicable standards. Partial deductions of up to \$0.60 per square foot can be taken for measures affecting any one of three building systems: the building envelope, lighting, or heating and cooling systems.

What can be done to further the green movement in commercial real estate? The Obama and Bush administrations have intensified efforts of upgrading government buildings to LEED standards, and some municipalities have followed this example.

There is a significant point being missed in the “age of economic stimulation,” heightened incentives to the private sector. Additional tax credits and a push for accelerated cost recovery, on energy efficient features, would provide a lucrative attraction to satisfy two essential economic needs.

This would draw much needed capital into the hurting commercial real estate sector, at the same time passively allowing new and existing structures to become energy efficient without government micro-management. Consideration of energy consumption underlies our dependence on hostile nations, which cuts across political boundaries, as does concern of global warming. Understanding and furthering the green movement in commercial real estate is a fundamental component to a sustainable nation.

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AARON CARONE, MAI, CCIM specializes in commercial real estate with Driggers Commercial Group, Inc.

