

Bay Street
Emeryville, California



In Pursuit of Greener Pastures

How to
Encourage
More Real
Estate
Developers to
Build Green

By Tyson Pitzer
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The “green” movement is gaining momentum, yet roadblocks still exist that prevent full-scale adoption of environmentally-conscious development and operations in retail real estate. The challenges are not insurmountable and can be overcome through a mix of industry-wide cooperation, greater incentives and more fair criteria for what constitutes green building.

Institutional Challenges

Many retail real estate developers today are often short-term investors that build projects, stabilize them and sell them off. This reality clouds the cost benefits of building green which are generally achieved over the long-term. Although general contractors and architects are becoming more familiar with green practices and costs are declining, it is still more expensive for short-term developers to build green than not. Without the means to recoup their costs and no clear indication that green labels increase the value of a property, investors and developers have little financial incentive to build green.

Retail developers are also challenged by the industry’s piecemeal nature, where different parties are responsible for different phases of a project. While developers deliver the shell of a property that often includes essential operating systems such as HVAC and water, tenants provide the bulk of their lighting, fixtures and related interior build-out components. This division of responsibility is a major hurdle to achieving property-wide green standards.

Achieving LEED Certification

LEED (Leadership in Energy and Environmental Design) is a third party certification program and is the generally accepted benchmark for the design, construction and operation of high performance green buildings. They have adopted a point-scale for which buildings can attain Certified, Silver, Gold or Platinum LEED status by having green components. Each component carries a point-value up to a total of 69. The key areas of concentration include Site Sustainability, Energy Efficiency, Water Conservation, Materials Selection and Indoor/Environmental Quality.

While it is important to have standards, many agree that LEED is not well-suited for retail real estate. The major criticisms are that it relies too heavily on outdated or irrelevant criterion and that the process for receiving certification is too cumbersome.

LEED standards, as currently written, are not evenly weighted to reflect investment costs or effort outlay by developers. For instance, the current version of LEED for Core and Shell awards one point for the installation of a bicycle rack and changing rooms, and also awards one point for brownfield development—hardly equitable development costs and yet these two steps carry the same point value. And while it is arguable that earning a point for bike racks is an easy and inexpensive step for all types of development, the fact remains that in

adopted, however, many developers will have a tough time seeing how the benefits of greening their pipeline outweigh the costs.

Additional Incentives

Once the LEED certification standards are optimized for retail, developers and tenants will still need incentives before building green becomes universal.

For many of the tenants, the push to go green promises more than reduced utility and operating costs or the potential to negotiate better tenant allowances. In fact, many experts agree that the impetus for tenants to go green is more a reaction to growing consumer interest in shopping at environmentally responsible retailers.

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order for building green to make both environmental and fiscal sense to a retail developer, this disparity needs to be addressed and adjusted accordingly.

Certain components of LEED also may not make sense to developers in specific areas of the country, yet the certification does not allow for this disparity. In both sunny southern California and cloudy Seattle, buildings face the same LEED criterion even though they do not share the same propensity to earn points in certain categories. In Seattle, where cloud cover is common, the installation of enough windows to qualify for the LEED points for the Daylight & Views category is extremely difficult and costly to achieve while far less burdensome on a developer in Los Angeles.

The good news is that the oversight body for LEED, the US Green Building Council (USGBC), agrees and a pilot program for Retail-specific LEED certification is currently underway. Until these changes are

Governmental incentives to build green can also be a driving force for developers. Incentives such as granting additional vertical space to a developer in exchange for constructing a green building are tangible and immediate, a benefit which could substantially impact a decision to complete a 100% green center.

The desire for green development and consumer demand for green retail is acutely felt in certain areas of the country more than others. An area where there is particular concern is San Francisco.

Reacting to strong consumer demand and local government incentives, in 2005, Madison Marquette greened the operations of **Bay Street**, a 400,000 sq. ft. mixed-use center, located across the Bay Bridge from San Francisco in Emeryville, CA. The center became one of the area's first 'green' shopping centers. Although the center was not originally built green, the benefits of converting to green operations were compelling to



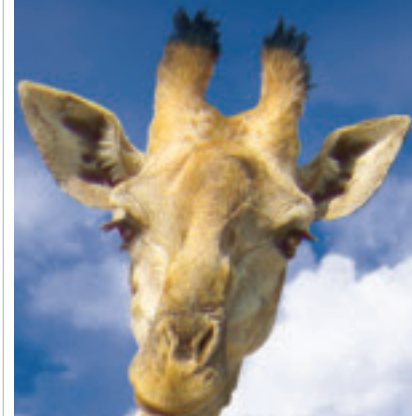
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Madison Marquette management both from a community and an environmental standpoint.

Built on a restored brownfield industrial site, Bay Street's commitment to green operations is extensive. The effort includes two composting machines, one for food waste and the other for non-food materials. It also

While Bay Street's green aspects are compelling, most experts agree that in order for a building to be truly green and successfully achieve any level of LEED certification, it must be built green from the beginning. To date, the overwhelming majority of LEED certified buildings are offices that have been constructed at the behest of corporations, non-profits or other public

going to have to make a committed effort to supporting (and maintaining) a green environment for the life of the property. This commitment will mean upgrades to parking structures, paint, asphalt and that all operating systems must follow mandated LEED specifications with no exceptions. Additionally, any and all contractors involved with the project must also commit to green practices.

It is now incumbent upon the **entire industry** to begin focusing on green issues.

includes an aggressive recycling program for jars, cans, bottles, cardboard and packaging, an irrigation system to minimize run-off and soil erosion in the outdoor plaza, and low-voltage lights throughout the center. The property has also converted cleaning and maintenance supplies to earth-friendly products. Many of Bay Street's restaurants and retailers have also implemented green operating procedures, further contributing to the property's green commitment.

agencies. For this trend to change, retail developers will need clear incentives that can overcome the financial and institutional challenges they face.

Lifelong Commitments

For green building to truly succeed in retail, it will take more than just the commitment of developers and retailers. Landlords and third-party managers are also

The building green movement has been a largely altruistic one pioneered by developers and operators with a commitment to environmental concerns. Fortunately, changes in standards, new incentives and growing consumer awareness are now combining to make building green a more economically viable route for all retail developers. It is now incumbent upon the entire industry to begin focusing on these issues if green building is to become truly universal.

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