

REI

Corte Madera, California



Going Green to Save the Economy

Why Green Budgets are Growing Despite the Downturn

By Hedy Veverka

Notwithstanding the struggling economy, it seems that green initiatives continue to gain momentum in the retail sector. Sustainability has gone from buzzword to a competitive advantage among some retail concepts and changing attitudes of consumers appear to be the driving force. The implications for retail real estate are important because “green” is beginning to permeate many aspects of the business.

According to a recent report published by the Aberdeen Group, a leading technology research firm, 75% of retailers have green budgets that will either stay the same or increase in 2009. Only 5% of companies either are not allocating budget dollars towards green initiatives, or foresee their current budget decreasing. These results are important considering the uncertain state of the economy and the slowdown in retail spending.

The Aberdeen Group also found that retailers who have invested heavily in green initiatives have managed to achieve at least a 20% decrease in energy costs, an 8% decrease in their overall logistics and transport costs, and an 8% decrease in merchandise costs. The study also discovered that these “Best-in-Class” retailers are more

likely to cite their Corporate Responsibility platform as a means of creating a competitive advantage. They also claim that their sustainability initiatives have given them major advantages over competitors in categories such as the ability to attract new customers, the ability to attract new trade partners and relations with existing trade partners.

The retailers who have invested in sustainability have created a domino effect by exerting a considerable amount of pressure on their competitors to go green. The Aberdeen report found that more than half of retailers reported that competition to go green by their competitors was a driving force while more than one-third said it was also influenced by the need to increase their brand value/equity. Other reasons cited included rising energy prices and the need to innovate. The least-cited force was to comply with present or expected government mandates.

The Rise of Conscious Consumers

The market forces that retailers appear to be responding to are bolstered by a recent study of consumers by research at BBMG. According to their findings, Americans

increasingly identify themselves as conscious consumers with 87% claiming they are more likely to buy products from companies that are committed to environmentally-friendly practices. An even greater percentage (90%) said they are more likely to buy energy efficient products if they are of equal quality and prices. Among the other categories that produced similar responses were companies that promote health and safety benefits (88%) and support fair labor and trade practices (87%).

The BBMG research identified “doing good” as one of the leading drivers of the conscious consumer. It is possible that these consumers are not only looking to shop around for the prices and quality of the products they’re buying, but they now wish to reward companies that are addressing environmental issues and doing their part to invoke change in the world.

When the “conscious consumer” is classified as almost 9 out of every 10 Americans, the stakes are very high.

The BBMG report concluded by stressing that companies must “practice what they preach” when it comes to sustainability. It comes down to an issue of trust for the consumers. More and more, they are looking for an involved relationship with the companies from which they’re buying, and are willing to offer loyalty to those who demonstrate transparency, accountability and authenticity. Companies that meet the demands of quality, affordability and sustainability will possibly begin to win the hearts of the conscious consumer. And when the “conscious consumer” is classified as almost 9 out of every 10 Americans, the stakes are very high.

Why Now?

The “green” movement has been around for decades — at least since the first Earth Day in 1970. So why are consumers, almost forty years later during an economic slowdown, starting to buy with a consciousness for green causes? It may have something to do with what they view as the underlying cause of the struggling economy.

The Pew Research Center recently released a report highlighting what Americans see as the causes for the current state of the economy. According to their findings, 66% of Americans agree that the competition for oil and natural resources has been the biggest contributing factor towards our nation’s economic problems. They blamed this competition more than other factors such as subprime home loans, excessive spending and high government budget deficits.

THE VETERANS OF GREEN

L.L.Bean



When L.L.Bean was founded in 1912, they probably never thought that over 95 years later the tiny store in Maine would have evolved into the big name business that they are today. With their evolution came responsibility, and with that responsibility came innovation. Innovation invokes change, and that’s exactly what L.L.Bean is supporting by committing to LEED certification for all new construction. In other words, placing L.L.Bean in your center means accommodating their green agenda.

Throughout their buildings and offices in the country, one can find energy sensors for lighting, energy management systems for temperature, equipment and appliances that are Energy Star rated, and remodeled restrooms that are using waterless urinals and low-flow toilets, sinks, and employee showers. One of L.L.Bean’s more notable projects was their store in Burlington, MA which was one of only two stores in 2006 that was built in accordance with the US Green Building Council standards.

As one of the largest outdoor brands in their industry, REI (Recreational Equipment, Inc.) has proved to themselves and their consumers that they take green initiatives seriously, and have set ambitious goals for the future. Long-term, REI aims to make their buildings achieve the lowest energy intensity in their class, but they have established a short-term goal to ensure that all new locations will meet or exceed LEED-certified standards by 2009. In addition, they intend to apply for LEED certification on at least one existing store per year.

With an emphasis on the community and community common space, REI’s prototype retail store in Boulder, CO sets the bar high for any competitor in its class. While REI as a company is no stranger to green building, this particular location is considered to be a stride above the rest, winning Chain Store Age’s “Retail Store of the Year” award. This was the first time the award was won by a retailer in the Environmental Sustainability category.

patagonia®



Patagonia is a company that has always incorporated a passion for the environment into their overall mission statement and marketing technique. Believing in taking a “holistic approach” to all aspects of their business, they are committed to sourcing lower impact dyes and organic cotton for their products. Defining the quality of their company “by the degree to which [they] can reduce [their] impact on the environment,” they have realized that being committed to the environment means going beyond the materials they use to create their apparel.

In 1998, Patagonia became the first California company to purchase all of their electricity from renewable energy plants. Their 171,000 sq. ft. Reno Service Center is respected throughout the industry as one of the most innovative projects, as it is a sustainable and efficient powerhouse.

Being green has earned PNC Bank ranking among *Fortune* Magazine’s Most Admired Companies, among other awards, for their commitment to the environment. Boasting the most USGBC-certified buildings in the entire world, PNC has been “leading the way” for green banking since 2002. From the structural steel to the carpeting used throughout their buildings, over 50% of materials used in their construction comes from recycled products.

Between postage, check cards, debit cards, and check books, banking could potentially use an excessive amount of paper and plastic. By using recycled paper for their checks and recycled plastic for debit and check cards however, PNC is cutting down on unnecessary product usage.

Source: Madison Marquette Market Research

GREEN-ING ROOKIES



Starbucks Corporation has established itself as a socially responsible organization with a wide-ranging commitment to the environment. Like many other retailers, Starbucks works with the United States Green Building Association and invests in amenities such as high-efficiency lighting, flooring made out of recycled materials, and furniture made from sustainably harvested wood. They also use recycled or alternative materials for their hot and cold cups and paper products throughout every store.

Starbucks is also setting long-term goals to keep their green efforts focused. By 2010, not only do they plan to reduce company-operated and international store energy use by 25%, they also aspire to have 50% of store energy come from certified renewable sources. The company plans to have all existing stores up to the U.S. Green Building Council green certification standards by 2009, and by 2010 Starbucks is committed to incorporating green building standards into all new building construction.



As the first European boardriding (surfing and skateboarding) company to introduce an environmental unit into its business, Quiksilver has recently stepped into the spotlight as a sustainably conscious brand. Whether at the beach, in the mountains or even in the street, they are committed to respecting the environment in which we live.

In April 2008, Quiksilver launched a winter outerwear line made out of recycled water and soda bottles, combined with sustainable Hemp fabric and non-toxic dyes. The clothing line was designed with the most advanced earth-friendly textiles and production processes.



Also keeping the environment in mind during the construction of all new stores is your neighborhood Whole Foods Market. While materials such as recycled steel, expanded aluminum and bamboo can be found in new Whole Foods buildings across the country, their corporate headquarters in Austin, TX takes the cake at the epicenter of their green design ideals. Winning the first "Green Building" award in 1998 for its expansion and renovation, this location is respected in the industry for its forward thinking.

Winning them the EPA Green Power Partner of the Year in 2006 and 2007 was their 2006 purchase of renewable energy credits from wind farms to offset all of the electricity used in every Whole Foods store and facility in the United States and Canada. As a result, the company will produce and save more than 2.2 million kilowatt hours of energy over the course of 20 years.



With goals to become "carbon neutral" by 2011, Nike has spearheaded environmental issues with new green initiatives. Nike has been incorporating sustainability into the design of new footwear products. Meeting the targets for waste reduction, eliminating volatile organic compounds and increasing the use of environmentally friendly materials are all goals the company plans to meet by 2011. Finally, the company plans to reduce footwear waste by 17% and packaging and point-of-purchase waste by 30%.

To help them achieve these goals, Nike has compiled a Restricted Substances List (RSL). In the extensive 55-page report, harmful substances are noted for suppliers to know what will and will not be accepted for use on their products. Meeting legislative standards and passing a corporate toxicity review are just two of the many pre-requisites that Nike's materials endure before passed into production.

Source: Madison Marquette Market Research

When asked what is the most important problem facing our country, 61% of Americans cited economic concerns (including gas and oil prices) as the most important issue. Although rising prices on all goods and services were a concern, the rising price of energy was cited most frequently.

Americans may now see not going green as contributing to higher energy costs and therefore perpetuating the bad economy. By buying "green" products and supporting environmentally sustainable retailers, they empower themselves to help overcome the economic challenges facing the country, and the world. These underlying currents supporting green are only bolstered by relentless media coverage and celebrity endorsements.

The Impact on Retail Real Estate

Regardless of the causes, it would be risky to dismiss sustainability and "green" building as simply a fad. Retail real estate owners and developers are already confronting prominent national retailers such as Patagonia, PNC Bank, Whole Foods Market, Nike, L.L.Bean, Starbucks and REI that have increasingly strict criteria for green building standards. These demands will likely increase in the years ahead.

Developers are also facing increased pressure from state and local governments that are demanding new construction meet certain environmental sustainability standards. Those demands are in addition to increasing subsidies and tax breaks being offered to build green.

Consumer preferences for green centers are also being felt in some areas of the country. Madison Marquette has experienced very positive responses from consumers and local government officials following its "greening" of **Bay Street** near San Francisco.

From development and leasing to marketing and management, green is beginning to impact many aspects of retail real estate and it is incumbent upon everyone to educate themselves on this sustainable trend.

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Starbucks at Bayfair Center, San Leandro, CA