



Environmental Compliance

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Green Building Forecast Focuses on Renovation, Retrofits

Current green building practices highlight huge market opportunities that exist in the renovation and retrofitting of existing buildings and provide insight on what to expect regarding future market trends, an attorney said Dec. 2.

Michael J. Zimmer, of counsel with Thompson Hine LLP in Washington, D.C., was one of three featured panelists in a BNA webinar titled "Green Building Practices: Legal, Financial, Technical Drivers in the Marketplace." The other panelists were Mike Italiano, president and chief executive officer for Market Transformation to Sustainability and Capital Markets Partnership, and Leanne Tobias, founder and managing principal of the green real estate advisory company Malachite LLC.

Policy, Business Drivers

Today's green building market "presents the opportunity to synthesize and build upon the foundation of the past decade to address in an integrated fashion a number of very important variables. A lot of this initiative has been spawned by the public policy process over the past 10 years" and has developed as an adjunct of the consideration of managing climate change issues and challenges that continue to be presented on a global basis, Zimmer said.

Additionally, the evolution of industry leaders in the green building field and increased data supporting the value created by green retrofits and renovations also has started shifting the market, Zimmer explained. It has become clear that green retrofits make excellent sense from a business perspective, he said.

"Retrofits typically provide very strong returns on investment and payback. It's good business to undertake building retrofits," Tobias said. Retrofits can encompass anything from a complete gutting of a structure to "a limited retrofit that can use very rapid and cost-effective solutions to reduce energy usage in a building."

Tobias noted that benefits from green retrofits include "increased building values, simultaneous repositioning, enhanced branding, and market results."

The emphasis on existing buildings also can be attributed to the size of the market. Almost five million commercial buildings are available for retrofits, Zimmer said. In addition, existing buildings on average use 25 percent more energy than new buildings, and energy efficiency is the "cheapest, cleanest resource to meet future energy needs," Zimmer said, making the case for retrofits compelling.

Specific policy drivers that will shape the green building market

over the next decade include Executive Order 13154 (2009) signed by President Obama, which mandates implementation of the 2030 net-zero energy building requirement for new federal buildings and greenhouse gas reductions of 28 percent in civilian and certain defense sectors, Zimmer explained.

State, Local Codes

Another development boosting green building trends are mandatory state and local building codes. Cities are not necessarily waiting for states to adopt codes, Zimmer explained. He cited New York City as a market leader with its "five building blocks for the future for existing buildings," which include mandatory benchmarking, periodic audits, phased lighting improvements, retrocommissioning, and tenant submetering. He expects similar mandates to be seen in a number of other municipal and county markets.

Zimmer predicts national building codes increasingly will rely on international standards like those approved this year, notably the 2012 International Energy Conservation Code, which provides mandates and incentives to reach 30 percent energy use savings (17 BECB 370, 11/29/10).

Another factor driving the market is the value created by green building retrofits. As part of Capitol

Market Partnership's Sustainable Investment Initiative, the group has been working with investors, investment banks, and rating agencies to develop green building underwriting standards, according to Italiano.

In August 2009, CMP released to the New York Stock Exchange its findings backed by statistically valid data that green buildings "are more profitable, less risky, and preferred by investors; have top market rents and highest occupancy; and have the highest valuation."

Green Building Securities

The Federal Reserve Board and the U.S. Treasury Department have reviewed and concurred with these findings and will work with the White

House to launch green building securities with investment bank top management, Italiano added. The underwriting standards are critical to the success of green building securities and identify the building attributes that increase value, he said. In ranked order, these attributes include efficiency, proximity to transit onsite, moving from linear to integrative design, commissioning of the building to ensure it was built as designed, improved indoor air quality, and climate neutral operations, Italiano said.

Financing green buildings and building improvements through the use of green commercial mortgage-backed securities has large economic potential, Italiano said. "Green building securities can provide a \$1 trillion

stimulus," he said, "while blunting the economic risks global climate change poses."

Financial innovation for green building will be critical in the next decade. Zimmer noted that in addition to green mortgage-backed securities, the market is likely to see continued specialty funds with bond financing similar to the Ohio Gateway Fund, the California Clean Tech Bank, and the Ohio college/university venture funds, which "are cutting edge state developments with immense national value."

BY MARY ANN GRENA MANLEY

A recording of the webinar is available for purchase at <http://ehsstore.bna.com/Past.aspx>.