Selling Developers, Lenders & Investors on Building **Green**

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Basic Questions

- **Who are these guys?**
- **What do they care about?**
- **How to sell them on building green?**

Developers: Who are They?

- Entrepreneurs: publicly & privately owned
- Include institutional owners: REITs & pension funds
- Growing consolidation, but local orientation remains essential

What do Developers & Owners Want?

- Controlled costs (construction and operating)
- Maximum revenues
- Maximum sale price
- Ability to finance project

Financing Sources: Who Are They?

- **$2.1 trillion**: Total c**ommercial/multifamily debt,** Q1 2004

- **$1.5 trillion (70%)**: **business lenders**
  - – Commercial banks, savings banks: **$1.07 trillion (51%)**
  - –Life insurance companies, pension funds, REITs: **$287 billion (14%)**

- **$420 billion (20%)** = **Bonds**
  - –**Wall Street**: Commercial mortgage-backed securities (CMBS)= commercial loans pooled into bonds
  - –**Government sponsored enterprises (Fannie Mae, Freddie Mac)** = apartment loans pooled into bonds
- **$190 billion (10%)** = **Gov't & other**

Source: Mortgage Bankers Association

What Do Lenders Want?

- ***Lenders want to be repaid.***

- ***Appropriate project performance***

- ***Bond market increasingly important:*** ***standardization***

Goals Summary

- Developers and owners: profit maximization, high cash flows and sale price

- Lenders: solid performance, predictable cash flows

How Does **Green** Fit In?

Lower Operating Costs: FAVORABLE

- 30% utility cost savings
- Slower dollar growth in utility costs= predictability
- High quality engineering – more predictable operating performance over time

Construction Costs: Unfavorable to Neutral

- Base Building: 2%- 3% green premium reported widely

- Green tenant improvements may be more costly than conventional

Spec Projects: Construction Cost Control Critical

- Costs must be as low as conventional
- Necessary for market returns at prevailing rents
- Lenders won’t finance above-market costs if higher rents uncertain

The Good News on Costs…

- Can often build to Basic or Silver LEED for the same cost as conventional
- Growing industry experience cuts costs
- Increasing state, local, federal incentives for building green; www.dsireusa.org

Summary on Construction Costs

- Speculative projects
  - –Build within market cost envelope
  - –Use public incentives to make projects feasible
- Build to suit projects: more flexibility
  - –Lease revenues and term should support added costs

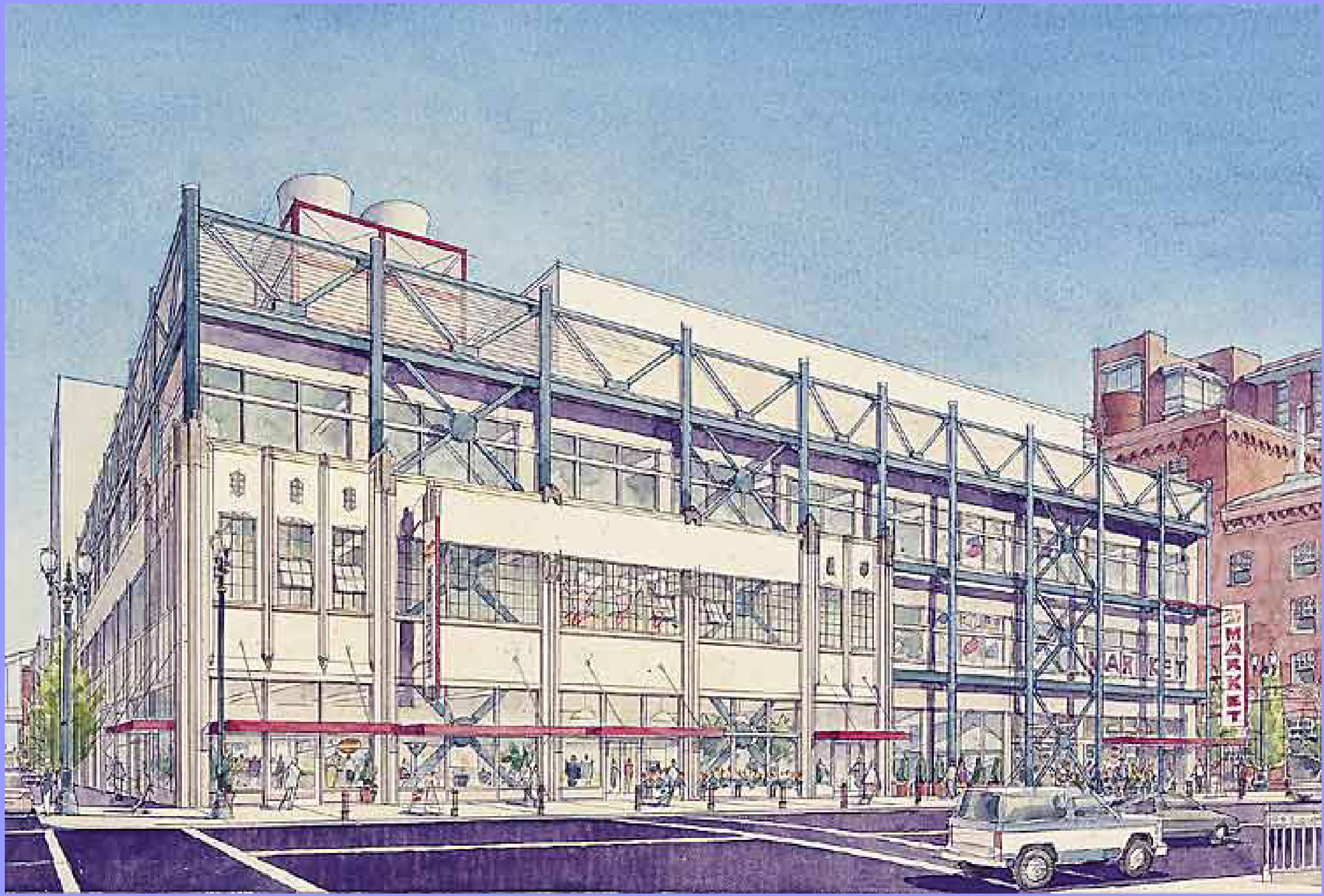
REVENUES: FAVORABLE EVIDENCE EMERGING

- **Shorter lease-up time**
- **Top tier rents**
- **Result: higher cash flows**

NAVY LEAGUE BUILDING
Arlington, VA

THE SOLAIRE
Battery Park City, New York, N.Y.

BREWERY BLOCKS
Portland, OR



Why Green = Market Success

Residential: Green = safe, healthy environments

Commercial:

Green = building quality, tenant comfort

Green appeals to “high end”, image conscious tenants

Green = lower tenant operating costs

Conclusion: Green can be <u>marketed</u> to tenants

SUMMARY OF GREEN IMPACT

- **Cash flow maximization**

  Top tier rents   Lower operating costs

- **More predictable performance**

  Less downtime   Slower cost growth

  Fewer operating problems

- **Super Class A: Great for developers, investors & lenders!**

Evaluating Green with Real Estate Cash Flow Analysis

- **Conventional analysis can show green benefits**

- **Developers, lenders, investors require conventional analysis**

- **Computer model:**
  - **10 years of operations, year 11 sale**

A **Green** Cash Flow Analysis

- Steven Zenker, MAI, Cushman & Wakefield, Portland, Oregon
- Leanne Tobias, Malachite LLC
- Portland hypothetical, Q1 2004
- 100,000 sf office building: **green** v. standard

Assumptions 1

	Standard ($/sq. ft.)	Green ($/sq. ft.)	Diff. (% Conv.)
Rent	$18	$20	11%
Lease-up	18 months	15 months	17%
Tenant renewal	65%	75%	15%
Utilities	$1.30	$.90	31%

Assumptions 2

New 1 gen TI	$25	$26	4% Unfavorable
New 2 gen TI	$18	$19	6% Unfavorable
Renew 2 gen TI	$5	$6	20% Unfavorable

Results

- Present value, green: $16,470,000
- Present value, standard: $14,360,000
- Effect of green on sale price, year 10: +11.7%
- Effect of green on present value:

+$2,110,000 = +14.7%

Selling Green Projects

- **Keep base building & TI costs competitive**
- **Green features = salable tenant amenities**
- **Green sells to “high end” tenants**
- **Green= faster lease-up, top tier rents , cost reductions**
- **Green= higher, more predictable cash flows**
- **Green = higher value for developers, investors and lenders**

GREEN: SUPER CLASS A

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