

Today, we face many unprecedented challenges—financial collapses, rising unemployment, escalating health insurance costs, environmental disasters—and the United States' image is viewed as a nation unwilling to take formidable action on global warming. In a struggling economy, many firms and organizations are grappling with the dilemma of "going green" versus spending the money on often more expensive, environmentally friendly products and materials. Yet the return on investment (ROI) of green design has never been more viable and important from a societal, financial and image point of view. Today, we have an incredible opportunity to reshape our future and restore balance.

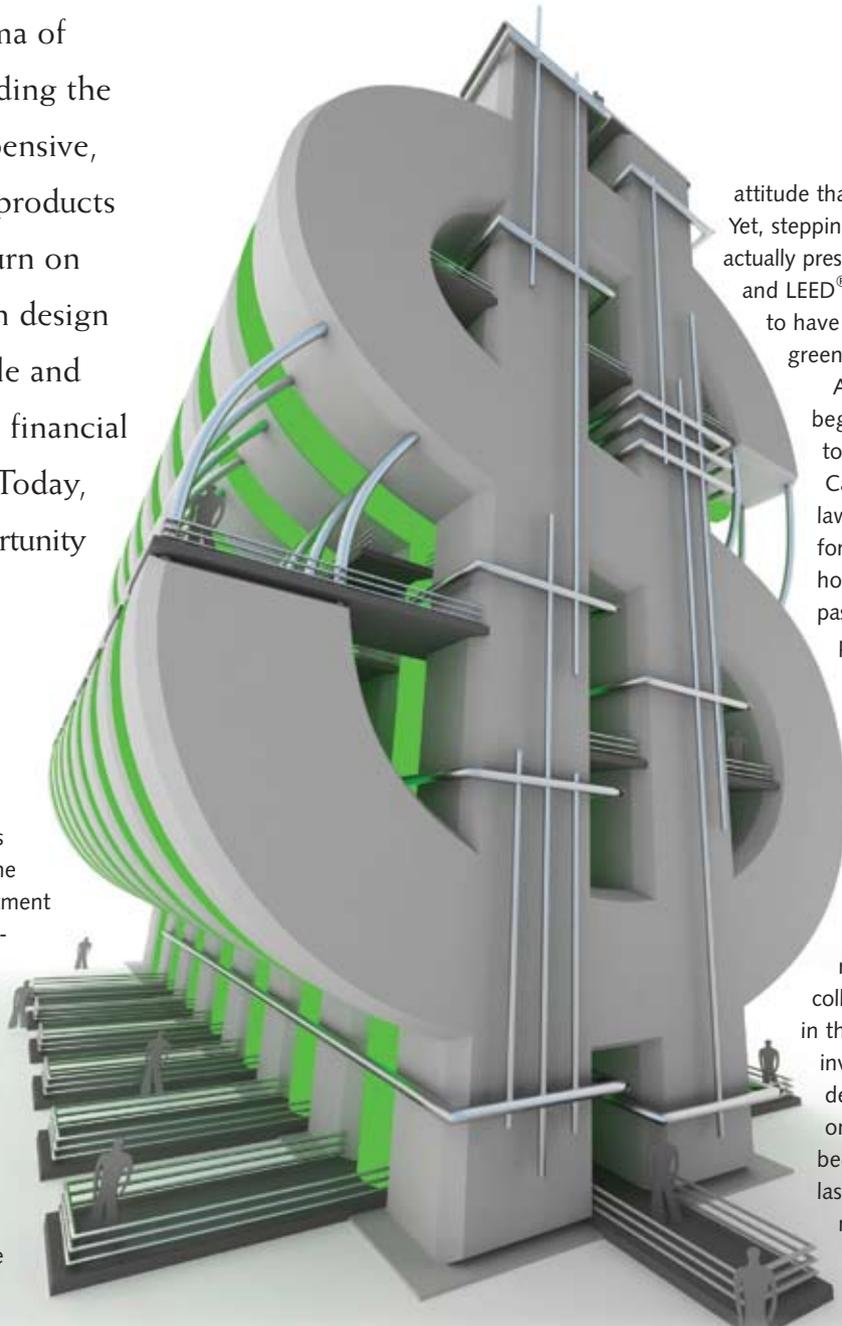
SOCIETAL ROI

A recently released study by a team of environmental researchers in the United States warned that the effects of global warming are irreversible. The report, sponsored by the U.S. Department of Energy, states that "global temperatures could remain high for 1,000 years even if emissions can somehow be halted." This replaces the previous belief that if the world's countries stopped emitting carbon, the climate could go back to normal in 100 to 200 years.

When this news is added to the challenges presented by today's economic crisis, it's easy to adopt the

THE ROI OF Green Design

Now more than ever, businesses need to look at the societal, financial and image benefits of building greener facilities.



attitude that "the world is coming to an end." Yet, stepping back, this confluence of events actually presents every interior design, architectural and LEED® professional with the opportunity to have a significant societal impact using green design.

A grassroots movement has already begun on state and local levels thanks to many elected public servants.

California, for example, signed into law Assembly Bill 32, a major initiative for reducing climate change or greenhouse gas (GHG) emissions. The Senate passed Bill 375 that requires metropolitan planning organizations to include sustainable community strategies in their regional transportation plans in order to reduce GHG emissions; align planning for transportation and housing; and create incentives to implement the strategies.

In addition, the *Los Angeles Times* reported on the findings of a study conducted by "Next 10," a nonprofit research group, that indicated "green collar" jobs are the fastest growing in the state and that clean technology investment hit a new record in 2008 despite steep market declines. It went on to state that 1.5 million jobs have been created in California over the last 30 years due to energy efficiency measures, and that green employment increased 10 percent between 2005

and 2007 compared to other job growth over the same period.

On a national level, incentives, rebates and tax cuts exist for business owners—especially for small and mid-size businesses—who are moving forward with retrofits, construction and design of high-performance buildings, as well as infrastructure improvements. These investments in green materials and systems will deliver long-term savings (compared to the rising costs of utilities) and ultimately, much greater energy efficiency. These practices are not only good policy for the environment, but for society's energy independence and national security. The new administration appears to be acting quickly to expand the nation's commitment to green initiatives, having, within the first month in office, announced orders to have the U.S. Environmental Protection Agency conduct an immediate review on states' requests to set pollution standards for new cars. The order also directs the Department of Transportation to increase efficiency standards on a national level. In addition, the economic stimulus package supports bringing the United States up to speed in the fight against global warming in many ways.

By learning from previous generations' practical philosophies—waste not, want not; a penny saved is a penny earned; and when something breaks, fix it (versus throwing it away)—and aligning these axioms with today's focus on sustainability, carbon reduction and conservation, entrepreneurs, manufacturers, government officials, financial investors, and environmental stewards will clearly see the ROI of green design.

FINANCIAL ROI

Interior designers, architects and LEED consultants are constantly faced with having to make the business case for clients to go green. Many clients face the challenge of reducing capital costs while still meeting high operational goals. Often, clients are tenants in buildings where they have no control over core systems tied to their spaces. Clients need to be counseled and provided with the tools that link ROI with investments in sustainability, and they need to be empowered in the space selection and lease negotiations on items such as the term, separate water and power meters, and other issues tied to conservation.

Recent studies, such as CoStar's "Does Green Payoff?" provide some valuable metrics. This systematic study, which examined more than 2.4 million properties in the CoStar database across the United States, provides data on Energy Star- and LEED-certified buildings versus non-green counterparts. The results are stated as "promising" and

support moving toward sustainability. CoStar's CEO reported: "The information we've discovered is very compelling: Green buildings are clearly achieving higher rents and higher occupancy; they have lower operating costs, and they're achieving higher sale prices."

The study specifically finds that LEED buildings command rent premiums of \$11.24 per square foot and have 3.8 percent higher occupancy over non-LEED spaces. Additionally, rental rates in Energy Star buildings represent a \$2.38 per square foot premium over comparable non-Energy Star buildings and have 3.6 percent higher occupancy.

Also well noted in the CoStar study is how regional differences impact these numbers (See Exhibit 9 in study, www.costar.com/josre/pdfs/CoStar-JOSRE-Green-Study.pdf). In California, for example, with Assembly Bill 32 being enacted to curb carbon emissions, volume demand in the marketplace coupled with cap and trade regulations will continue to drive premiums down. Additionally, the Obama administration supports a cap and trade system to reduce U.S. carbon emissions 80 percent by 2050. The administration's stimulus package is indicative of that goal.

So how can tenants negotiate and leverage effective green leases and move toward these targets? The Corporate Realty Design and Management Institute assembled a panel of experts to create a "Model Green Lease" (www.squarefootage.net/about_us.htm) with 10 essential elements, many of which contribute to LEED certification. The elements include:

1. Environmental Performance
2. Rent Structure
3. Energy Use by Tenant
4. Operational Performance
5. Annual Performance to Tenants
6. Hazardous Materials
7. Green Cleaning: Daytime Cleaning and Recycling
8. Building Rules and Regulations
9. Fit-Out of Tenant Spaces
10. Tenant Manual and Development Guidelines

In addition, the panel advocated for consideration of other items such as the language of the lease and longer lease terms; the ability for tenants to pay and monitor their utility consumption separately (to realize cost savings or to realize a reward for savings where these items are included in the base rent); and the negotiation of green house-keeping contracts.

These straightforward steps help create safe,

healthful environments that save energy and operational costs for the building owners and their tenants.

CORPORATE SOCIAL RESPONSIBILITY

Now more than ever, corporate social responsibility (CSR) is relevant, not only in terms of image, but also in terms of financial and societal gain. Though corporations may be tempted to cut back on CSR programs, strong support by federal and state governments indicates a movement toward rewarding businesses that act "responsibly." Cap and trade regulations are examples of these policies that work to improve the environment and reward responsible companies at the lowest possible economic cost.

Without a doubt, businesses must look at the ROI of green design from all angles—societal, financial, sustainable, and philanthropic—and at how, in today's market, they can best leverage green design to benefit their employees, supply chain and image. ●

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