



# THE NEW ENVIRONMENTALLY FRIENDLY TREND

LOCAL AND REGIONAL MARKETS SEE VARYING ENVIRONMENTAL TRENDS

By Steve Lewis

Being “environmentally friendly” is a key consideration in every market in the United States, but as SIORs have told us, the way to achieve that goal varies according to client values, building types, and local regulations.

“The new buildings have obviously gone to new T-5 and T-8 energy efficient fluorescent lighting with motion detectors in warehouses, and that essentially allows the utility company to offer rebates,” says **Allan J. Riorda, SIOR**, principal in Lee & Associates, Chesapeake Region, Columbia, Md. “Traditionally they should pay for themselves in less than two years.” Heating and lighting are key operation costs for warehouse people, he adds, “And many new buildings are also looking at beefing up insulation in the roof deck.”

At present, he continues, LED lighting is cost prohibitive. “Then there is the parabolic skylight, which is new as well,” says Riorda. “It basically concentrates lighting and looks like lighting.” One owner, he notes, not only went with this type of lighting but put R30 wall and roof insulation in his warehouse. “It was almost over-engineered from the standpoint of insulation but it’s attractive to tenants,” he says.

Natural gas heating is preferred over any other, Riorda adds. “Many do go to solar panels on the roof,” he says.

**Rob Martensen, SIOR, CCIM**, vice president of Industrial Properties for Colliers International in Phoenix, Ariz., notes that one of his clients is hard at work on a new environmentally

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friendly technology. “Most office buildings are equipped with diesel engine backup generators that are primarily used for emergency power outages,” he notes. “The rest of the time these power generating (power gen) units are sitting idle. The building owners cannot use them on a regular basis because of the noise and more importantly the pollution a diesel engine produces.

“My client ZHRO Solutions is developing a technology that will allow diesel engines to run on natural gas. This will allow the building owner to actually power a portion of their building from the power gen unit at a cost that is much less expensive than electricity and it will actually clean the air. The exhaust from natural gas is completely clean, so the power gen unit can run all the time. It is also much quieter than a diesel generator, reducing noise pollution.”

Martensen says this may become a new environmentally friendly trend because it can cause the building to use less electricity from the grid, which means less pollution. “This will also lower the operating costs of the building, which can raise the value,” he says.

“There are several trends, from lighting retrofits and upgrades, energy procurement, and the use of environmentally sensitive paint, carpet and cleaning solutions, to recycling programs, tenant engagement contests and employee education on sustainability,” says **Geoffrey Kasselmann, SIOR, LEED AP**, of Newmark Grubb Knight Frank in Chicago. “Plus, the city of Chicago and other municipalities have mandated energy reporting for certain commercial properties, which is further driving energy monitoring, benchmarking, and overall adoption of evolving best practices.”

On the other hand, there are “no new trends in our market” because “the state of Michigan is pretty progressive when it comes to environmental challenges as they relate to real estate,” says **Chip Hurley, CCIM, SIOR**, managing director for Newmark Grubb Cressy and Everett in Grand Rapids, Mich.

“Back in 1995 the state’s cleanup requirements went from using residential cleanup thresholds to risk-based thresholds,” he shares. “In addition to the criteria, we have a tool called a Baseline Environmental Assessment (BEA); if a particular property is confirmed to have a release on the site, a new buyer can perform a BEA and submit the report along with a due

care plan to the state and receive protection from environmental liabilities at the site. As an example, if a contaminated industrial site was going to always be used as industrial, the cleanup criteria used is at a higher threshold than if it were to be redeveloped for a multi-family project. On the flip side, if an operator of a gas station wants to purchase another existing gas station, it forces that buyer to thoroughly document the current condition of the site and determine how they may later distinguish between an existing release (prior to their occupancy) and a new one that their operation caused and would have direct liability for.”

Engineering controls can also be used as part of a due care plan, he adds. “Slab concrete floor, a non-permeable asphalt parking lot, or clay lined landscaping areas can be effectively used to create a barrier between a hazardous substance and the general public — or a naturally occurring water source,” says Hurley. “These methods also ultimately prevent transportation or migration off-site by rain water.”

### GOING THE EXTRA MILE

**Elizabeth C. Belenchia, CCIM, SIOR, RICS**, president of Carroll Properties Corporation in Spartanburg, S.C., shares her experiences from putting together an office retrofit for a wealth management firm where all the energy-saving options were pursued.

“I have a little 4,000-square-foot building, but here I get \$48,000 in solar panels for free, and then this tax credit for renovating a five-year vacant building — \$13,500 a year for five years against the tax bill,” she shares.

“We do green lighting; with a Duke Energy consultant we see what lighting update we can do, as well as HVAC. We had to redo the HVAC system, update the IT system, take out all the fluorescent fixtures and put in LEDs, but they then qualified for additional benefits,” Belenchia continues.

The South Carolina state legislature passed a bill this spring allowing solar companies to lease rooftops, Belenchia continues. “One of the big detriments to using solar-energy was the initial upfront capital investment,” she explains. “By allowing investors and private companies to put that in place for people on a lease basis (some people do a 10-year lease) the investor may get a 10-year payback; the owner owns it.”

The solar company she worked with saw that the upper floor in the two-story building had only one window, “we looked not only at solar panels but solar tubes through the roof to provide more lighting,” Belenchia says.

Photovoltaic (PV) project costs were estimated at \$48,500, she notes, but Federal tax savings covered 30 percent of that and South Carolina covered 25 percent. By taking advantage of a state green initiative for the renovation of a minimum of \$250,000 for a building that had been vacant more than five years, a 25 percent tax credit was earned — leading to a total tax savings of about \$39,000.

After inputting energy savings, the annual return on investment was calculated at 17.4 percent. “Do they like me? Do they tell people about me? I don’t just show a building,” says Belenchia. “I want them to do better in terms of cash flow and keep running their project successfully.”

**KEEPING UP WITH TRENDS**

With all of these emerging trends it’s clearly important to keep up- to- date with new developments, and SIORs have a number of strategies for doing just that.

“I have really good relationships with environmental attorneys and consultants,” says Hurley.

“We utilize a variety of resources (i.e., DOE’s Energy Star and Green Lease Leaders), memberships (i.e. USGBC), credentials (i.e. LEED AP and Energy Star Partner), conferences and educational events (i.e. GreenBuild), partnerships (i.e. Green Lease Leaders), and beta testing of select, vetted software (i.e. Portfolio Manager), and related products,” adds Kasselmann.

“I keep up to date by speaking to architects and developers and contractors in the market,” Riorda says.

“My company is a member of the UN Global Compact/RICS Steering Group; I got involved as a representative for FIABCI,” Belenchia shares. “We look at environmental stewardship, health and safety in the workplace, and supply chain. I was also the only real estate person in the world to be an industry representative on the working group for ISO 26,000 (for corporate social responsibility), which came out in 2010.”

**A WIN-WIN SITUATION**

Staying on top of these trends, SIORs agree, not only benefits clients, but also enhances the relationships they have with those clients.

“It reduces project costs and ongoing operational expenses while preserving a property’s utility,” says Hurley. “If the client doesn’t know about the tools available and you are the one that makes them aware, you’ve just strengthened the relationship and added a ton of value.”

“It substantially lowers occupation costs, and companies like to be green,” says Riorda. “It’s also a benefit to us.”

“Clients pay me a fee to provide incentives, structure the deal to make things happen, and save them money,” adds Belenchia.

“Our sustainability clients are saving money, respecting the environment, investing in the future, gaining worker productivity, and enhancing their attractiveness to new recruits; they have a great story to tell to their investors, clients, prospects, and others in their respective local and business communities,” says Kasselmann.

“Real estate and energy have always been — and will continue to be — inseparably bundled,” he continues. “By strategically servicing the bundle, our clients are relying on us more than ever and in more places; sustainability and environmental considerations have no geographic boundaries and aggregate across entire portfolios of properties whether the portfolio is investor or user oriented.” ■

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