

# VIKINGLAND VIEWPOINT

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## Do Sustainable Real Estate Practices Cost More?

By: Michael C. Tobin, MBA, LEED AP and George Boyadjis, FHFMA, CPA

Whether renovating your current space or building something new, there is a myth surrounding the cost of sustainable real estate practices that needs to be put to rest. The myth is that sustainable real estate practices are more expensive than with traditional approaches to design and construction. This myth is causing more harm than good in the market and it is time to shed light on the truth.

So, are sustainable real estate practices more expensive?

A common answer that one might hear thrown out in the market is that “a sustainably built project costs an average of 10% more”.

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The correct answer is NO - sustainable real estate practices are not necessarily more expensive. In fact, there is no basis to state that constructing or renovating space using sustainable building practices costs an average of 10% more.

To prove this correct answer and debunk the 10% cost premium myth, one must ask what is the basis of comparison— i.e. sustainable design and construction practices are more expensive than WHAT?

Below are a few typical responses that one might hear to that question and the subsequent myth busting reasoning:

Answer #1 - “Sustainable space is more expensive than typical space of similar size and function.”

Myth Busting: This does not hold water as there is no common definition of a “typical” building or tenant space to base that comparison. There are also very few buildings that are “exactly” the same given the many variables that go into developing a building. The date of construction, the location of the building, the ownership structure, and many other factors affect the reasoning behind the design, construction, financing, and pricing of building projects. There are millions of buildings in the United States alone that have been constructed and operated over the course of centuries and it is practically impossible to compare their original construction costs to what their costs would have been if sustainable practices had been used.

However, as difficult as it may be, there are studies that have tried to do answer this question by neutralizing as many variables as possible. Our research of firms that specialize in providing construction market intelligence, reveal multiple studies that attempt to properly define a “typical” set of buildings. The goal here is to make an accurate and statistically relevant comparison for the cost of building LEED certified sustainable building space vs. non-certified building space. These studies, conducted in multiple markets and over multiple years, have consistently found no statistical evidence to support that LEED certified projects cost more to build than similar buildings which are not certified.

<http://tinyurl.com/4qb5vor>

Answer #2 – “Sustainable buildings are more expensive than a code compliant building of similar size and function.”

Myth Busting: This also does not hold water as every building constructed must be code compliant. Even if the

comparison were to a building built to code minimum, it is safe to say that there are very few buildings built today to exact code minimums. This would be like trying to compare the cost to build a particular brand of automobile, say, a Ford or a Honda, to the cost to build a minimally code compliant automobile. How do you accurately do that comparison and, more importantly, why would one compare one alternative to something else that they would never actually utilize in the first place?

Answer #3 – “The cost alone of coordination and documentation to LEED or other green certification programs pushes the price to a 10% premium.”

Myth Busting: This is an extreme exaggeration, and if your corporate real estate service advisor does not challenge this, they are ill-advised. The fact is, that the cost to certify a building to many of the sustainable building programs is quite minimal. There are three facets to this cost exaggeration though that needs explanation. These facets are the Program Fees, the Professional Fees and the Prerequisite Costs.

#### Program Fees

The program fees are the fees associated with registering and submitting a project to the agency that certifies the space as “sustainable”. These are typically much less than 1% of project costs. Examples from our experience include:

Example #1: A \$2M total project cost to renovate a 30,000 square foot office. The cost to register and submit the project to the LEED program equals \$3,150. That is 0.16% of the total project cost.

Example #2: A \$20M total project cost of a 100,000 square foot build-to-suit office building. The cost to register and submit the project to the LEED program equals \$5,400. That is 0.03% of the project cost.

#### Professional Fees

The Professional Fees are the fees paid to a service provider to coordinate the submittal to the sustainability accrediting agency. These fees have a high degree of variance across the country, and are based on the experience of the project team, the specific certification program, the complexity of the project, etc. The fee range starts at zero and can go up from there. Typically, the lower costs come from consultants that have significant experience with the certification process as they are not padding their fees for unknown risk. Again, examples from our experience include:

Example #1: A \$2M total project cost renovation of a 30,000 square foot office. The additional fee for the

architect to coordinate the LEED certification submittal equals \$0 as it is included in the architect's competitively-quoted fee. **That is 0% of the project cost.**

Example #2: A \$20M total project cost of a 100,000 square foot build-to-suit office building. The additional fee for the architect to coordinate the LEED certification submittal equals \$30,000. **That is 0.15% of the project cost.**

#### Prerequisite Costs

The Prerequisite Costs include services that are required in order to meet the prerequisites of the certification program. It is important to note that these costs **may or may not** already be included in the base project costs (another way of saying that these costs may not be viewed as additional or incremental costs, as they may be a valued component of the base design). Some of the more common prerequisite costs are for ancillary services such as energy modeling, building commissioning and the like.

These costs vary depending on the scope and complexity of the project. For example:

Example #1: A \$2M total project cost renovation of a 30,000 square foot office. The additional fee for a consultant to perform the required energy analysis and building commissioning equals \$10,000 and \$30,000 respectively (or \$40,000 total). **That is 0.50% and 1.5% of the project cost respectively (or 2% of total project cost combined).**

Example #2: A \$20M total project costs for a 100,000 square foot build-to-suit office building. The additional fee for the consultant to perform the required energy analysis and building commissioning equals \$20,000 and \$60,000 respectively. **That is 0.10% and 0.30% of the project cost respectively (or 0.40% of total project cost combined).**

If you add all these costs up for the two examples you have the following percentage of fees for achieving a certified sustainable project:

Example #1: Up to 2.16% of project costs

Example #2: Up to 0.58% of project costs

Now before one starts using these examples to wave in the air about the new "typical" cost of pursuing sustainability program certification, note the following errors in logic that make the analysis suspect (there may be more):

There are many different sustainable certification programs available, with varied certification fees.

Professional fees vary significantly depending on the sustainability program being pursued, consultant experience, competitive bidding, market conditions, building type, etc.

Prerequisite costs vary as some sustainability programs do not have any prerequisites.

Prerequisite costs may not actually qualify as "additional" costs. This is especially true today as many building owners consider energy modeling and / or building commissioning as examples of best demonstrated practices, and therefore part of what should be included in the base-case scenario.

*However, the point is that the actual costs for a certification under a sustainable building program are variable and hardly justify an erroneous market perception of a 10% premium.*

#### Summary

The key to understanding if sustainable construction costs more is to first understand the baseline for the comparison. As illustrated above, it is difficult to compare sustainable construction to other "typical" construction, but studies that have attempted to do that have found there is no appreciable cost difference. We also showed how the use of a minimally code compliant building as the baseline draws an irrelevant conclusion.

Owners or tenants in a sustainable building may or may not choose to apply for certification under one of the many certification programs available in the market today (LEED, Green Globes, etc.). However, if an owner or tenant pursues certification under one of the sustainable building programs there are some costs associated with that process that can be considered additional project costs: Program Fees, Professional Fees and Prerequisite Costs. However, we have shown that the total of these costs do not justify an erroneous market perception of a 10% premium. The costs for these programs vary significantly, and when an experienced corporate real estate service advisor is engaged to assist the building owner or tenant, then the aggregate incremental costs to pursue sustainability should be much less than the 10% myth.

In addition, there is an important consideration that we have not yet taken into account, which is the net cost of sustainable construction. So, besides the gross costs discussed above, there may also be benefits in the form of economic incentives that should be taken into account when discussing the overall net cost of sustainable real estate practices. There are many

economic incentives that can be associated with the up-front cost of constructing sustainable space including:

- Increased concessions from Landlords
- Expedited permit process which can save weeks or months on a project schedule
- Access to sustainability-related tax credits or grants
- Access to financing (or more attractive financing)

When you take these economic incentives into account, the “net cost” of constructing a sustainable building or building-out sustainable space might actually be less than the “net cost” of constructing the alternative!

The **truth** is that one cannot generalize the cost of incorporating sustainable real estate practices. The **fact** is that sustainable real estate practices DO NOT necessarily cost more. The **key** is to understand what the baseline is for the comparison.

*Mike Tobin, MBA, LEED AP is National Director for Sustainability Services and George Boyadjis, FHFMA, CPA is Executive Director at CresaPartners, a corporate real estate advisory firm, and the largest such firm in North America that exclusively represents corporate users of space. In addition, George is a member of the Minnesota Chapter of HFMA and national vice chair for FEI – Financial Executives International.*



JoAnna Justiniano Bronze Award

Winter Institute Awards Presentation



Ray Costello Silver Award



Kara Carpenter Bronze Award

Mark Davis Bronze Award  
Not Pictured