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REAL RESULTS IN SUSTAINABLE REAL ESTATE

Healthy buildings and healthy profits.

By Mark Kleszczewski

In the residential housing market, “green” or “sustainable” homes use energy, water and building materials much more efficiently than structures simply built to code. The same holds true for commercial buildings and industrial properties, where despite the ongoing pressure to minimize costs in an uncertain economy, this remains a very good time for companies to improve the environment while improving their bottom lines.

“Among the main concerns of today’s CEOs is the increased cost of energy, so the sustainable footprint around new construction, retrofits and upgrades is becoming more significant than in the past,” says Terry Hudgins, senior manager, climate change and sustainability services practice, Ernst & Young. “With energy costs representing up to 30 percent of the total cost of operating a building, green solutions are fast becoming a profitable avenue for building owners and developers, especially since the cost of building green has declined while

the return on investment has increased and payback periods have shortened.”

However, because today’s developers, owners and tenants face a sustainable building process that has matured yet accelerated, instant results are hardly a given. Among the major keys to success are defining goals early, sorting through evolving regulations, standards and new technologies, taking full advantage of incentives and treating sustainable efforts as a long-term investment.

Market Activity Increases

The green building movement has gained momentum in recent years thanks in part to the United States Green Building Council (USGBC), whose Leadership in Energy and Environmental Design (LEED) rating system has seen widespread adoption across the country.

According to the *2011 Green Building Market and Impact Report* released by GreenBiz Group, LEED-certified

buildings continued to increase their market share of annual new construction in the United States to more than 20 percent of new floor area put in place for the first time. Last year also saw a substantial increase in the number of new construction and “core and shell” projects involving rehabilitation of existing buildings.

Sustainable buildings don't automatically experience higher market values, but a recent study published by Fuerst & McAllister found that green-labeled buildings command both a rental premium — 4 percent in the case of Energy Star and 5 percent with LEED — as well as a building value premium — 26 percent with Energy Star and 25 percent with LEED. In April 2011, University of California-Berkeley researchers determined that both average rents and selling prices for green buildings exceeded those for non-green buildings between 2004 and 2009 and that there was no evidence the economic downturn negated tenant demand for sustainable space.

Beyond The Bottom Line

Besides energy, workforce is an area where healthy buildings can lead to healthy profits. The impact of health, comfort and productivity gains reflects the fact that the direct and indirect cost of employees often exceeds the cost of green construction or upgrades over time. Consequently, even small changes in productivity and health can translate into large financial and community benefits, even if some additional costs may have to be incurred upfront.

Improved financial performance isn't the only driver of sustainable building practices. “As more young people enter the workforce, they're demanding that their companies be sustainable and green, while communities themselves are demanding more and more that companies be responsible in their operations,” says Bruce A. Wright, associate vice president for university research parks, University of Arizona. “There's also a whole segment of consumers and businesses concerned about their impact on the environment and are willing to pay for sustainable products and projects. We see a huge market opportunity for sustainable ideas — that's why we're all about moving new technologies from the UA Tech Park laboratory to the marketplace.”

Reducing exposure to risk is yet another benefit to industrial and commercial green buildings. “Greater efficiency and adaptability allow you a level of resilience that puts you more in control,” says Wendi Goldsmith, CEO, Bioengineering Group. “Doing things in a financially, ecologically and socially sustainable manner often makes you do things in ways that make you less vulnerable to potential risks and surprises, especially natural disasters. The more self-sufficient and less resource-consumptive your facility is, the more you can exist without worrying about external resources and systems.”

Standards And Tools Evolve

A proliferation of new standards and rules aimed at commercial and industrial buildings has cropped up in recent years. Growing numbers of states and cities have adopted the International Green Construction Code as

a mandatory green building requirement to replace or supplement voluntary rating systems such as LEED. In the public sector, the U.S. Department of Defense, an early adopter of green building programs, is compiling a new construction code aligned with LEED and ASHRAE 189.1 standards. Also leading the way at the federal level are the requirements of Executive Order 13514 which directs federal agencies to expand efforts toward sustainable buildings and communities, while ensuring that federal facilities reduce energy use and waste.

As energy becomes more expensive and less reliable, owners and tenants of industrial and commercial space are also paying more attention to a building's ongoing operating performance. New building models and tools are becoming more available, Hudgins confirms, to measure exactly what the impacts are and how well a building can perform after a project is completed. Some of the prominent measurement tools in use today are the *Greenprint Performance Report*, the EPA's Building Performance with Energy Star program, BREEAM green building ratings and zero-energy utility certifications.

Specialized assessment tools are also being created by developers themselves. “Although LEED does a wonderful job focusing on the outcome of a project so that it will operate efficiently, we feel it doesn't yet focus adequately on the process of constructing and delivering a building in a sustainable manner,” says Brandon Birtcher, CEO for North America, Goodman Birtcher. “Through the EcoLogistics assessment software we've developed, we can look at predesign decisions that go way beyond individual concerns such as traffic. We can also use the methodology for looking at the potential impacts of materials sourcing, taxes, hiring and transportation objectives on a local community.”

Principles In Practice

In Kansas City, Mo., Posty Cards is proof that even small companies can be big leaders in sustainability. In June, the privately-held company completed a \$6.4 million, 25,000-square-foot addition and remodel of its facility, making it home to one of just seven manufacturing plants in the country to earn LEED Platinum certification.

“We saw this as an opportunity to set us apart while aligning our entire operation with our business philosophy and sustainable goals. Working closely with our local funding partners and agencies, we doubled the size of our operation, yet we are using only 5 percent more energy,” says Erick Jessee, president, Posty Cards. “By designing a building that's super-efficient, we're going to save a lot more than we would have had we built a conventional building.”

The project is a showcase of today's leading green building features: a solar photovoltaic panel that generates more than 11 percent of total power use, solar-heated water, high-efficiency HVAC systems and plumbing fixtures, active lighting controls and rain water reclamation measures. Native plant landscaping, low VOC paint, 100 percent recycled carpeting and used furnishings also boosted the project's rating.

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To maximize returns and make such a project run more smoothly, Jessee offers some practical advice — especially to smaller companies like his. “We learned how imperative it was to have a measurement and verification system which allowed us to look at how we were doing compared to the projected model, then make subsequent tweaks to our systems,” he says. “Also, dedicating a manager to oversee the process is a must. It was really challenging to deal with all the details while running the business at the same time.”

Thinking Ahead

Even as the economy rebounds, minimizing construction and overhead expenses continues to be a top priority for building owners and tenants. However, growing companies pursuing sustainable goals for their commercial space or industrial facilities have plenty of opportunities to gain positive returns, especially if they focus on the long term.

“So many people still don’t recognize that new building design and existing building retrofits — with proper planning from professionals trained in building science — can get a tremendous return on investment from energy improvements,” Goldsmith notes. “Building sustainability, practiced right, is a huge improver of cash flow.”

“A lot of corporate decision-making is based on a short-term payback — often to the effect of a two-year hurdle rate,” Hudgins says, “but what the C-suite needs to recognize, is that with lives of at least 50 to 100 years, buildings that reduce energy usage and improve their

carbon footprint have a positive, long-term consequence. We need to take a longer view.” ■

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