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# Commercial Real Estate: When (Not If) Business Should Go Green

Prepared by:

**Pamela A. Green**

Tel: (905) 273-3022 ext. 265 • Fax: (905) 273-6920

E-mail: [pgreen@pallettvalo.com](mailto:pgreen@pallettvalo.com)

*Pallett Valo LLP*

1600- 90 Burnhamthorpe Rd W

Mississauga, ON L5B 3C3

[www.pallettvalo.com](http://www.pallettvalo.com)

“Going Green” ... “Green Buildings” ... “Sustainability” – these are all catch phrases that are becoming more and more common place. “Going Green” is a fast growing trend. In fact, it is more than a “trend”, it is a way of life that will invade us and stay with us. The question is no longer if business should go green. The question now is when and how. Why? Because we are becoming acutely aware of the damage that we are causing to the environment and the fact that we must do something to stop it.

One of the most evident symptoms of the damage is global warming. It is now certain that climate and environmental changes as a result of global warming will have profound impacts on human society. The only question is how rapidly those changes will occur and how severe they will be. The ability of businesses to forecast and plan in such an environment will be challenging, as business typically likes to work in a low-risk environment. Prudent business leaders, however, can ensure a corporation’s long-term viability by tackling these issues head-on.

Business leaders should already be tackling these issues. Like other members of society, business should recognize the need to do its part as good corporate citizens to protect the environment. Owners, landlords and boards of directors should also be aware of two important non-altruistic motivators. First, government is now stepping in and will soon begin to mandate “green”. Second, “greening” the business has a direct impact on both tangible corporate profits and non-tangible corporate benefits.

## WHAT ARE THE MAIN TENETS OF “GOING GREEN”?

Although there are many variations and many combinations, these are the main tenets of “going green”:

- Energy efficiency and renewable energy
- Water quality and efficiency
- Stormwater management
- Waste management – pre- and post- construction
- Indoor environmental quality (IEQ)
- Reduction of carbon footprint and carbon output
- Smart Growth and Sustainable Development (i.e. Site planning/community planning/public transit)

## WHAT DOES “GOING GREEN” LOOK LIKE?

Going green could be as simple as instituting a paper recycling program or it could be as complex as retrofitting a building to incorporate renewable or more energy efficient systems. The possibilities are really endless, but here are a few ideas:

### For the building:

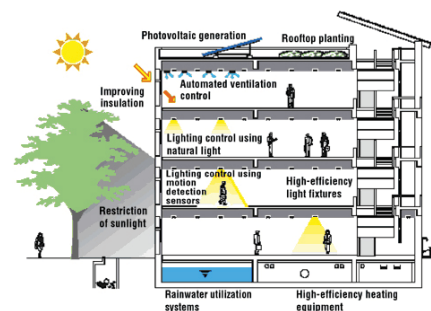
- Constructing a green roof which could provide an outdoor retreat for building occupants, increase the life of the roof membrane and provide better climate control within the building.
- Collecting rainwater from the rooftop and using it for washrooms which would decrease the load on water purification systems and the corresponding by-products of such systems.
- Major renovations where the design incorporates what can be reused or recycled. There should no longer be complete gutting of a building (or an area of a building) without a plan as to what can be salvaged, what can be sold for reuse, what can be recycled and how the “go to the dump pile” can be minimized, if not eliminated.

### For the office:

- Office furniture and partitioning made from recycled and/or reused parts or materials.
- Minor renovations usually involving repair work and repainting which should be completed with new products that are less toxic, both in application and post-application emissions.

### For the business:

- Recycling paper, plastic and other products throughout offices and warehouse space as well as compost stations in kitchens, kitchenettes, cafeterias or food court areas.
- Green cleaning products reducing irritation and allergy symptoms for handlers and occupants.
- Incorporate “green” products in the manufacturing process such as materials that are reused or recycled or are themselves manufactured in a green manner or are environmentally friendly.
- Use service providers who conduct themselves in a green manner or have green experience which can benefit you.



Conceptual Drawing of Green Building

[www.james-huniford.net](http://www.james-huniford.net)

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## GOVERNMENT WILL STEP IN AND START TO REGULATE.

Generally speaking, the issue of greening buildings and businesses is not yet regulated by our government, however, governing authorities (at all levels) are paying more attention to issues relating to the environment. There is no doubt that government is now stepping in and will soon mandate "green". They will start to impose standards and requirements on developers, builders and business owners with respect to construction, reconstruction, renovation and how we carry on business.

The Canadian government, for example, is confronting global warming by moving to reduce greenhouse gas (GHG) emissions. On March 10th of this year, it released details concerning its strategy to "turn the corner" on climate change, the implementation of which is expected to begin in 2010<sup>1</sup>. The two main components of this strategy are (1) invoking mandatory targets for reduction of GHG emissions for certain industry sectors (such as a petroleum refining, potash, iron and steel, cement, etc.) and (2) establishing an offset system to enable non-regulated (and regulated businesses) to earn carbon credits by voluntarily cutting emissions (or cutting emissions beyond their targets), which they could then sell to regulated businesses to help them achieve their targets. The result, hopefully, will be that while some industries will still have high emissions and may never meet targets, the overall reduction will be meaningful. This also means that there is an opportunity for business to make money by being environmentally conscious.

Canada is not unique in its effects. Many countries and governmental authorities around the world have policies and regulations geared to curbing global warming and improving our environment. In the UK, for example, new buildings and refurbished buildings must meet standards aimed at reducing carbon emissions by 27%. They are also exploring potential carbon taxes on inefficient buildings as an incentive to build smart or build green. The issue of carbon taxing has been a hot topic of debate in the past couple of months in this country. London, England requires that 10 percent of the energy consumed by large buildings must be generated on site using renewable sources. They have also implemented a levy on cars and vehicles in the downtown London area (you might recall that Toronto has considered this). In addition, London has considered a surcharge for SUVs (i.e. non-environmentally friendly vehicles). Whether they implement the additional levy or not, it is an indication of how proactive they are being in terms of protecting the environment. The European Union has proposed performance certificates awarding energy ratings to buildings - just like appliances. It would be very easy for tenants to determine what certificate level was awarded and this would allow them to "shop" for buildings with a higher green rating. Like the European Union, the Office of Energy Efficiency for the Ministry of Natural Resources Canada is commencing pilot projects for a new energy rating and labelling system for commercial and institutional buildings.

In 2006, the City of Toronto approved what is called the Green Development Standard (GDS) which contains performance guidelines that relate to site and building design to promote better environmental sustainability of development. The GDS currently only applies to new City owned and affiliated projects. Initially, it was intended to be voluntary for the private sector for a one year period. Although we are beyond that one year period, Mayor David Miller has been recently quoted as

stating: "It's possible that it could be mandatory [by the end of the year]." During the voluntary period, the City will conduct further study and consultation with industry and the public. It is important that the leaders in our community, and even individual members of our community, get involved in that process. Once standards like the GDS or emission reduction targets become mandatory, companies will have to bear the financial cost and certain projects may no longer be viable.

Industry and community input would be very helpful in persuading the City and other levels of government that alternative incentives should also be considered and perhaps implemented. In past consultations, the City of Toronto has considered fast tracking development applications that meet the GDS. The result is that an application would bypass the usual lengthy time period required to submit a building permit and obtain approval. A green application then becomes significant in terms of time and money saved. Another incentive that the City should consider is allowing increased density notwithstanding existing zoning by-laws. A project can become viable again if it can offset the increased construction costs to bring the project to green standards against the additional revenues to be obtained from the added floor space. Other types of incentives could take the form of income tax benefits or reduced realty taxes or development charges. Certain incentives and funding programs exist. See sidebar below for more details. These opportunities should be explored and taken advantage of when considering any green project.

Given that it will soon become mandatory, why isn't everyone building or rebuilding green? Opposition often stems from the fact that, while environmentally desirable, it usually translates into extra costs.

## THE BUSINESS CASE

There is a premium to going green. From a building perspective, in most cases, the construction cost side of the equation (both hard and soft costs) will be greater. The percentage varies widely depending upon the type of building/use involved, but could be as little as 2%. The more prevalent (or mandatory) the green trend becomes, the more downward pressure there will be on prices and eventually the premium to green will be reduced, if not altogether eliminated. Until then, how can one justify the additional costs?

The answer is found in financial and other benefits which could more than offset the premium in the form of costs savings, increased profit and market differentiation. Implementing a green feature could be justified by savings in operating costs enjoyed over time. This could be coupled with increased durability and longer life cycles. These sorts of benefits are all fairly easy to quantify and there are a number of studies and examples that demonstrate this. What the studies also show is that the cost savings can be significant. The other side of the equation, however, is not so easily quantifiable. Tenants or occupiers of buildings that meet certain green standards will be happier, healthier and more productive. These types of benefits are referred to as "active business benefits."

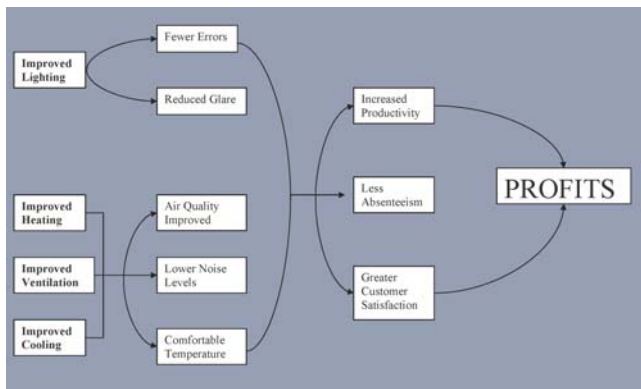
Active business benefits also result in financial gains, but assigning a number to such gains in order to justify the costs of either constructing a green building or retrofitting to become a green building is not an easy task. We do know, just as a matter of common sense, that productivity will increase with improved air quality, improved lighting and improved thermal control. Note the human effects of green improvements on the

chart below, for example fewer errors and lower noise levels leading to increased productivity and decreased absenteeism. Sick building syndrome is decreased significantly reducing health insurance premiums and workplace liability. Increased day lighting plays a major role in the foregoing.

“If sunlight is essential for the recovery of the sick, is it not a still more powerful agent in the prevention of disease?”<sup>2</sup>

Increased day lighting has also been shown to improve retail sales. All of these effects result in increased corporate profit. These are not new concepts and most green building methodology is also not new. Increasing awareness and resulting societal pressure has pushed the concepts and methodologies to the forefront.

**MODEL FOR IEQ IMPACTING PROFIT**



Source: US Environmental Protection Agency, June 1998

There are an increasing number of studies that demonstrate the legitimacy of active business benefits and in many cases, attach dollar values to them. Gregory Katz recently conducted an interesting study entitled *Greening America's Schools*<sup>3</sup>. Two schools in North Carolina had been constructed decades before, and as a result contained very obsolete systems and had minimal natural sunlight. A new school was constructed that combined the two schools and incorporated a number of green features. Not only did the study justify construction of a green school on the quantifiable numbers but taking the same students, the same teachers and the same curriculum, the study revealed that two years after moving into the new building, the percentage of students who were at grade level for math and reading had increased from 60 to 80 percent. This type of benefit cannot be quantified in dollar terms, although one could argue it's priceless.

From a marketing perspective, landlords can use the green moniker to their advantage. Choosing to construct a green building or a non-green building or something in-between, affects not only the end fair market value of the property, but also the value of the rent. Given the tenant benefits such as increased productivity, having a healthier environment to attract and maintain employees, and decreased operating and maintenance expense, landlords can demand a higher rent. Since the tenants will be happier and more profitable, they may stay longer. Marnie Abramson, in her presentation at the Green Real Estate Conference in Toronto on April 18, 2007, coined a very appropriate term – “Rent can transition from an obligation, to an investment in your company.”

From a product perspective, consumers will pay a premium to buy green. People believe buying green products will be

healthier for them and healthier for the environment. People are also beginning to affiliate themselves with products that are manufactured in environmentally friendly ways or are less harmful to the environment. As a result, companies can increase their market share and net profit by touting the green label. Green building advertising may follow “fat-free” product food packaging trends. To quote Doug Webber in his presentation at the Green Real Estate Conference in Toronto on April 18, 2007, “The cost of green is a design issue. The value of green is a marketing issue.” It won't just be what business builds, owns or works in, it will be what business makes, how it makes it and how it advertises it. With all of these benefits, both quantifiable and unquantifiable, the choice to go green becomes moot.

## TIME TO DO A “GREEN” AUDIT

Companies and business owners should perform inspections and conduct audits and reviews of their buildings, their policies, their business processes and their business vision with an eye to what can be replaced, removed, reorganized, installed, implemented or improved from a “green” perspective.

An audit could comprise the following:

- Review human resource records for absenteeism and health complaints such as fatigue, headaches, allergies; review building complaints such as stuffy air or unsuitable temperatures and analyze health insurance premiums.
- Conduct indoor air quality testing.
- Review operating costs, month over month and year over year; research products and systems designed to reduce certain operating costs.
- Install meters to verify actual use and peak demand periods.
- Conduct employee surveys on what measures they believe the company should undertake to do its part for the environment. Such surveys assist in obtaining employee buy-in and encourage employee pride in the corporation.
- Review materials and services used in manufacturing, warehousing and office processes; review by-products and waste from manufacturing, warehousing and office processes.
- Conduct further research on programs and/or incentives available for green needs.

If the results of such audits indicate that it is time to move the business or to conduct a major renovation of existing premises, then attention shifts to certification. BOMA Go Green, instituted by the Building Owners and Managers Association (BOMA) in Canada in 2004 and the Leadership in Energy and Environmental Design (LEED), instituted by the United States in 2000 and run by the Canada Green Building Council (CaGBC) in Canada, are two examples of environmental assessment, education and rating systems. Certification under these types of systems adds both prestige and value to real estate.

These rating systems are being used in turn by governments to develop guidelines and legislation for “green buildings”. The GDS, for example, is based largely on these systems although it is important to note that obtaining certification does not necessarily equate with compliance under the GDS or with other governmental requirements such as the Ontario Building Code.

CaGBC's mission is to “promote buildings and communities that are environmentally responsible, profitable and healthy places to live, work and play by engaging a national coalition of industry

leaders to accelerate the mainstream adoption of green building awareness, principles, education, policies, practices, standards and tools.”<sup>4</sup>

The LEED Canada Rating System is an independent, verifiable certification program which currently concentrates primarily on new construction and major renovations, as well as, retail, existing buildings, schools, commercial interiors and core and shell ratings. BOMA Go Green, on the other hand, is a voluntary program concentrating solely on existing buildings. Both systems offer owners assistance in assessing how a building is performing and provide invaluable resources for going green.

BOMA Go Green focuses on the development of environmental management plans, programs and policies whereas LEED sets out specific performance criteria leading to certification levels – Certified, Silver, Gold or Platinum. LEED certification and these specified levels are internationally accepted benchmarks. As such, no new project should be commenced without some level of certification in mind.

“Green” can be incorporated into almost every aspect of a company, including lease provisions, construction or renovation contracts, employee and tenant policies, and material and service purchase orders. Businesses can simply choose to be good corporate citizens or they can be ahead of the game in

### INCENTIVES AND FUNDING PROGRAMS

Incentives and innovative funding programs may tip the scales and lead to a decision to go green (or to incorporate green elements). Governmental and quasi-governmental authorities at the federal, provincial and local level are now offering a multitude of incentives and programs to encourage building green. Here are some examples and information obtained from the respective websites:

#### At the Federal Level:

- Natural Resources Canada ecoENERGY program for businesses:
  - ecoENERGY for Biofuels
  - ecoENERGY for Buildings and Houses
  - ecoENERGY for Fleets
  - ecoENERGY for Industry
  - ecoENERGY for Renewable Heat
  - ecoENERGY for Renewable Power
  - ecoENERGY Retrofit – Small and Medium Organizations
  - ecoENERGY Technology Initiative
- ecoENERGY Retrofit grant offered for small and medium organizations. To be eligible, commercial, institutional and certain multi-unit residential buildings must be less than or equal to 10,000 m<sup>2</sup> (107,639 ft<sup>2</sup>). Industrial facilities must have fewer than 500 employees and not be subject to any clean air regulations. Up to \$50,000 per project may be paid based on \$10 per gigajoule (277.8 kWh) of estimated annual savings and up to 25% of eligible project costs.
- ecoENERGY Renewable Heat offers commercial incentives for solar air and/or water heating systems for 25% of costs up to \$80,000 per installation
- [www.ecoaction.gc.ca/ecoenergy-ecoenergie](http://www.ecoaction.gc.ca/ecoenergy-ecoenergie)

#### At the Provincial Level:

- The Ontario Power Authority (OPA) has committed several hundred million dollars in investments over the next few years and has 27 conservation funds and programs active in 2008.
- “Power Savings Blitz” Program – On May 29th of this year, the OPA announced a new program designed to support effective, money-saving energy conservation measures for small businesses. The program, called the “Power Savings Blitz” started its transition from pilot project to full-scale operation as part of Ontario’s first Energy Conservation Week. The program provides free electricity assessments, as well as turn-key lighting and water heating retrofits for small commercial businesses with electricity usage of less than 50 kilowatts (kW) of annual demand. Funding of up to \$1,000 is provided for the retrofit and covers both materials and labour. A wide range of businesses, such as professional dry cleaners, medical offices, beauty salons, convenience stores and other small retailers are eligible.
- New Construction Program - The OPA is developing an integrated program of design assistance and financial incentives to motivate builders and developers to incorporate sustainable and energy-efficient features in new construction and major renovation projects. The New Construction Program will provide assistance to incorporate Conservation and Demand Management measures into the design, construction, and operation of new and substantially renovated buildings. These measures are designed to save energy through improved efficiency and peak demand management.
- The OPA will offer qualifying buildings with incentives to exceed the Ontario Building Code by at least 25 per cent to become truly high-performance buildings.
- [www.powerauthority.on.ca](http://www.powerauthority.on.ca)

#### At the Local Level (City of Toronto):

- The Better Buildings Partnership Program promotes and implements energy efficiency and building-renewal retrofits.
- The Better Building New Construction Program strives to have new buildings designed to be at least 25 percent more energy efficient than current standards.
- The Green Roofs Pilot Program supports the City’s stormwater plan and is designed to encourage green roof construction. As part of this program, successful applicants receive a grant of \$50 per square meter of eligible green roof area up to a maximum of \$10,000.00 for single family homes and \$100,000.00 for all other property owners.
- The Toronto Atmospheric Fund exists to help finance projects that combat global climate change and improve air quality.
- [www.Toronto.ca](http://www.Toronto.ca)

Most of these programs and agencies also offer technical assistance, modelling simulation and software support to evaluate and incorporate proven technologies and project measurement and verification services.

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using the green building trend as a marketing tool. Either way, the Green Age is coming and business should embrace it, plan for it and flaunt it.

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<sup>1</sup> See federal document entitled, *Turning the Corner: Regulatory Framework for Industry Gas Emissions* which updates the original policy contained

in the April 2007 plan, *Turning the Corner: An Action Plan to Reduce Green house Gases and Air Pollution*. Air pollution will be addressed in further updates expected to be released later this year.

<sup>2</sup> William Atkinson

<sup>3</sup> Greening America's Schools, <http://www.cap-e.com/ewebeditpro/items/O59F11233.pdf>.

<sup>4</sup> [www.cagbc.org](http://www.cagbc.org)



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