

## A commercial tenant's guide

### The multi-tenant green building is here: has the time to rent green come as well?

After years as an expensive fringe interest green buildings are moving fast toward the mainstream. With a widely accepted grading system (see LEED Rating on p.2) and encouragement both from state and city governments and from bodies like Battery Park City, developers and owners are increasingly embracing the idea that building and occupying green space is not only socially responsible but is also a financially sound choice.

Until recently this change in sentiment scarcely made a blip on the typical New York commercial tenant's radar. The reason was quite simple: multi-tenant green buildings did not exist.

But that situation is changing. Speculative green is appearing, and tenants are snapping it up.

Manhattan's first speculative green building, the 1.7 million sq. ft. **7 World Trade Center**, opened for business in 2006 with a LEED Gold rating (see p.2). It has so far found tenants—at the highest rents in the downtown market—for almost half its total space. **1 Bryant Park**, aka the Bank of America Tower, still with naked steel at the time of writing, has only four floors still available at reported asking rents of \$125 per square foot. On 8th Avenue, meanwhile, more than half the speculative 800,000 sq. ft. in the still-unfinished New York

Times Building has already been accounted for, mostly by out-of-town law or financial service firms, undeterred by the tower's less than prime location and asking rents that currently run from \$85 to \$95 per sq. ft.

Green options for commercial tenants remain as yet quite narrow and are clustered in the market's upper reaches. But that is changing. Already tenants have the option to build out old space to green standards (see *Build your space out green* on p.4), and within a few years will undoubtedly be able to rent "pre-greened" space in renovated older buildings. The question is rapidly becoming not whether to lease green space, but when.

**green buildings use 30% to 70% less energy than conventional buildings**

### NEW YORK'S MULTI-TENANT GREEN BUILDINGS



#### 7 World Trade Center

Total Sq. Ft: 1,700,000  
 Floors: 52  
 Typical floor size: 41,000  
 Completion: 2006  
 LEED rating: Gold (Core & Shell)  
 Space available (1/07): 829,175 (smallest 3,199)  
 Asking rents: \$60 to \$70  
 Tenants committed/in place:  
 Moody's Corp., 590,000  
 The NY Academy of Sciences, 40,000  
 Mansueto Ventures LLC, 39,357  
 Darby & Darby, P.C., 81,734  
 Silverstein Properties, 80,000  
 Ameriprise Financial, 20,000



#### New York Times Building

Total Sq. Ft: 1,680,076  
 Floors: 50  
 Typical floor size: 28,846  
 Completion: 2007  
 Projected LEED rating: none (but green credentials very high)  
 Available space: Approximately 325,000 sq. ft.  
 Asking rents: \$85 to \$95  
 Tenants committed:  
 Legg, Mason & subsidiaries, 192,249  
 Seyfarth Shaw, LLP, 96,909  
 Covington & Burling, 159,481  
 Osler, Hoskin & Harcourt, LLP, approx. 64,000



#### 1 Bryant Park (Bank of America Tower)

Total Sq. Ft: 2,137,667  
 Floors: 54  
 Typical floor size: 41,915  
 Completion: 2008  
 Projected LEED rating: Platinum  
 Space available: Approximately 100,000 sq. ft.  
 Asking rents: \$125  
 Tenants committed:  
 Bank of America, 1,584,000  
 Durst Organization, 40,384  
 Marathon Asset Management 75,000  
 Elie Tahari 40,000



4 Times Square: the 1st green building in New York, but Condé Nast and Skadden, Arps took it all.

## What makes a building green?

The best conservators agree that what they do to a work of art must never be harmful and always reversible. Developers and operators of green or “sustainable” buildings operate on similar principles.

Whether new construction or renovated older structures, architects design green buildings to be ecologically friendly from the moment that construction starts until they are dismantled many years later. In 2000, the US Green Building Council promulgated the LEED rating system for green buildings, which judges new construction and renovations on the basis of the following categories:

- **The sustainability of the site**
- **Water efficiency**
- **Efficient and clean use of energy**
- **Use of recyclable, renewable and non-toxic materials & resources**
- **Indoor environmental quality**
- **innovation & design process**

## LEED Rating: the Standard by which nearly all choose to be judged (but not everyone)

### The New York Times Building: Not LEED Anything

The New York Times and their developer/partner, Forest City Ratner, decided to build a green building without going for LEED Status. Their Reason? They felt that too many of the LEED criteria were inapplicable to their site and project, and that getting the LEED status that the building otherwise merited would require wasted expenditure. The New York Times Building is still a *very* green building by contemporary standards.

The US Green Building Council’s LEED (“Leadership in Energy and Environmental Design”) ratings are based on the number of points that a project earns in the categories listed lower right on page 1. Under Local Law 86 (see page 3) most new city projects and private projects that receive substantial city support are required to achieve LEED Silver status.

Point totals result in the following LEED designations:  
26-32 Points—Certified

33-38 Points—Silver  
39-51 Points—Gold  
52-69 Points—Platinum

For commercial space LEED certification is offered for the following types of project:

- New Commercial Construction and Major Renovation
- Existing Building Operations and Maintenance
- Commercial Interiors
- Core & Shell Development

For more information on the US Green Building Council and LEED go to [www.usgbc.org](http://www.usgbc.org)

**The added cost of green construction has dropped from 20% a few years ago to 2% to 5% now.**

### LEED “Core and Shell” (LEED-CS)

7 WTC was the first office building in Manhattan certified under the USGBC’s pilot LEED *Core & Shell* category, designed to encourage developers of multi-tenant buildings to build in a way that is both green in itself and enables tenants to build their individual spaces out green. As described by the USGBC itself, Core & Shell broadly “covers base building elements, such as the structure, envelope and building-level systems, such as central HVAC, etc.”

**The average reduction in energy consumption for green buildings represents a 20 year NPV at 5% of more than \$5 per sq. ft.**

## Some hard-nosed reasons to consider renting green

### It could be cheaper

Over the course of a lease, you are likely to

- consume and pay for significantly less energy
- face lower operating escalations as a result of the lower energy consumption in the common areas.

### You might get more work out of your workforce

There is increasing evidence that employees working in green space are

- more productive
- Take fewer sick days and are generally healthier

*In fact*, in a report for the Massachusetts Technology Collaborative, Gregory H. Katz—a member, among other green credentials, of the LEED steering committee—conservatively attributed a

- 1% productivity gain to LEED Certified and Silver buildings, and
- A 1.5% to Gold and Platinum buildings

Katz calculated that these gains were worth \$600 to \$1,000 per year per employee, or \$3 to \$5 per sq. ft., with a 20 yr NPV at 5% of \$35 to \$55.

(Gregory H. Katz, *Green Building Costs and Financial Benefits*, Massachusetts Technology Collaborative, 2003)

### Incentives to build it green are available for interior work

Albany offers commercial tenants tax credits to build green—not just owners. Qualification is based on criteria such as levels of energy use, materials used, indoor air quality, waste disposal and water use. *Details at [www.dec.state.ny.us/website/ppu/grnbldg/index.html](http://www.dec.state.ny.us/website/ppu/grnbldg/index.html).*



*The new Goldman Sachs building at West & Vesey: not available to mere mortals*

## Local Law 86: moving green into mid stream

This law, which came into force at the start of 2007, mandates that most city-funded projects and any private ones receiving more than \$10 million or half or more of their total funding from the city must achieve LEED silver status. Although not directly applicable to most private development this law is likely to add impetus to the trend towards green construction.

## Build your space out green

Most publicity so far has gone to single-occupier projects where everything installed can contribute to the building's overall greenness. But what if, like most businesses, you aren't big enough to occupy a entire building?

One choice of course, if the rents are within your budget, is to take and build out green space in a newly constructed green building such as 7 World Trade Center, the New York Times building or 1 Bryant Park.

Another is to rent space in an older building and build it out to LEED commercial interior specifications.

This is what green building pioneers Cook + Fox Architects have done in their new 12,000 square foot home at 641 Avenue of the Americas – the 1902 vintage Beaux Arts Simpson-Crawford-Simpson department store building. The architects of the 2.2 million square foot Bank of America Tower might have found it embarrassing not to follow the gospel they preach when building for themselves, but they have cer-

*(Continued on page 4)*

## Green benefit estimates

How much of it reaches the tenant is, of course, a matter for negotiation, but when calculating whether the extra rent for, or cost of building out, green space is worthwhile, the following estimated benefits per sq. ft. may be a useful start. They are expressed as NPV @ 5% over 20 years:

Energy savings	\$5.80
Emissions savings	\$1.20
Water savings	\$0.50
Operations & Maintenance Savings	\$8.50
Productivity & Health	\$36.90 to \$55.30
<b>Total</b>	<b>\$52.90 to \$71.30</b>

*Source: Capital E Analysis, as included in Katz Green Building Costs and Financial Benefits, Massachusetts, 2003*



*Bank of America Building architects Cook+Fox have built themselves an extremely green office in an old building: you can too.*

(Continued from page 3)

tainly done it with enthusiasm. Aiming for a LEED Platinum rating, they created an impressively beautiful and modern interior using a high percentage of low-emissions recycled or recyclable (and attractive) materials and sophisticated controls for hvac and water usage. The estimated cost of a LEED Platinum installation over a standard one is about 6.5%.

### What does the future hold?

Sustainable architecture—green building—is here to stay. In the medium to long term, the materials and construction methods used in today’s pioneering buildings will almost certainly become part of the building code and required in all construction and renovation projects. At that stage, green will not be an option—it will be the only way that things get built; over time—and probably a shorter time than most of us imagine—green offices will be virtually the only kind of offices available for rent.

What of the shorter term? Local Law 86 (see page 3) and the general emphasis of the City on environmentally sound design and construction will increase green

renting opportunities for New York commercial tenants both directly and indirectly: directly in non-traditional markets like East 125th Street, where a recent city RFP specified 100,000 to 300,000 sq. ft. of office space in a proposed LEED Silver mixed-use development; indirectly by shifting the public and business perspective regarding the feasibility and “normalcy” of building green.

One activity that has scarcely begun but which we can expect to increase is the retrofitting of existing buildings to meet green standards. Single occupiers will likely make the first moves in this, as they did in the construction of new green buildings: J.P. Morgan



*The Hearst Tower: Very green, very sleek, very unavailable*

Chase is, for example, seeking LEED certification for the remodeling of its midtown headquarters. But it’s hard to imagine that owners of multi-tenant buildings will not seek higher rents by turning their buildings green.

Within a few years, it is likely that the questions “Why build green?” and “Why rent green?” will be hopelessly dated: as the amount of available green space increases, tenants will accept nothing less and owners who have not yet done so will scramble to provide what they want.



*J.P. Morgan Chase is going for LEED rating of its refurbishment of its World HQ on Park Avenue. Will this soon be imitated by owners of multi-tenant buildings?*

### Thinking of renting green? A checklist :

- Are the premium rents on new space within your budget?
- Are there green buildings in your target market/a nearby market to which you might consider moving?
- Would you consider building out your own space in a non-green building as green space?
- Will your business benefit from the positive image that occupation of green space might bring it?
- Is your firm’s electricity consumption high enough for the savings realized by greater efficiency to justify any additional rental expense?
- Is employee health/quality of life important to your firm?
- Would the evidence of greater worker productivity, lower employee