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REAL ESTATE

In today's office rental market, building to LEED standards is not an option, it's expected

It's easy being green

By GARRY MARR
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Peter Menkes is proud to be flushing his profits down the toilet. The president of **Menkes Developments Ltd.** says it costs a little more to build an office tower that uses recycled rainwater in the toilets, but in today's corporate world environmentally friendly buildings have become the norm.

Menkes Developments announced this week a \$250-million 30-storey tower in Toronto with **Telus Corp.** its lead tenant occupying 60% of the 780,000 square-foot site.

To lure tenants, Mr. Menkes plans to build the site according to Leadership in Energy and Environmental Design, or LEED standards — a program that has become almost a de facto building code for the construction industry.

"There is a whole feeling of being a good corporate citizen," said Mr. Menkes about the reasons for constructing according to standards that could add more than \$1-million to the Telus building's costs. But, in today's rental market, there is no option but to build to LEED standards.

Everybody is doing it. Oxford Properties Corp., a subsidiary of the Ontario Municipal Employees Retirement System, announced last week its new tower in Calgary will be built according to LEED standards. First Capital Realty Corp., the largest community shopping centre owner in the country, made a big splash at its AGM this year with an announcement that it was "going green," using the LEED program as its yardstick for a new mall in Toronto.

The LEED program is an environmental scorecard created about eight years ago by the non-profit U.S. Green Building Council and now being used around the world. Buildings receive a score and then are certified as silver, gold or platinum. The ratings are based on such things as water efficiency and use of energy.

The franchise rights in Canada to the LEED system have been sold to the Canada Green Building Council, a non-profit group created about three years ago by members of the building industry. The group is funded by members who pay based on the size of their business.

"The way the trend is going, to be credible in the marketplace you have to have your building rated," said Thomas Mueller, president and chief executive of the Canada Green Building Council, which has offices in Ottawa and Vancouver. "I think buildings that are not built to a high level of performance are going to become obsolete in 10 to 15 years."

Mr. Mueller believes tenants are going to look to the rating as a onestop answer as to whether a building is worth their time or not.

Telus Corp. left no doubt about the fact it wanted a building constructed to the new standard. When it put out a request for proposals for new office space, it made it clear that space had to be built to LEED standards.

"It was one of our criteria. Our branding is 'the future is friendly'. We want to live our brand. From a real estate perspective, the LEED program and its responsibility to the environment is something we want to align with," said Andrea Goertz, a vice-president in charge of Telus' real estate.

Stan Krawitz, president of Real Facilities Inc. a real estate consulting firm, said he's working on four office buildings being built to LEED standards.

He said the program started out by attracting interest from public institutions such as hospitals but has increased in popularity as LEED has been proven to have economic benefits for users.

"Two forces have come together," said Mr. Krawitz. "One is good corporate citizenship. That isn't enough to get it to the level of popularity we are

seeing today. It's been proven there is an economic payback. That's a second motivator."

Mr. Krawitz said building a facility to LEED standards can add 15% to 35% to total construction costs. "If it took 15 years to recoup that, popularity would be very low, but the payback can be in as little in two-and-half years."

Payback can include such things as savings on energy, water and materials. "When you are going through construction you don't have to send five bins to the dump when you can send one. It's expensive to get rid of construction waste," said Mr. Krawitz.

First Capital's Dori Segal thinks more real estate companies are going to participate in the LEED program because of tenant demand.

"Today maybe it's not very important because it's something that's just started. But in time both consumers and tenants are going to appreciate it. If you are shopping centre tenant and you have two equal locations and you have to make a decision and one is green and one is not, you will go with the more environmentally friendly choice."

He estimates real estate companies can add 5% to 7% to their final costs to meet a minimal LEED standard. "You can spend 20%, start putting in green roofs, and you will be at the top of the rating system."

The key, said Mr. Segal, is when everybody builds according to the LEED standard. "Once everybody does it there is no cost to it because you are no more expensive than anybody else," he said.

In the interim, he thinks the latest trend is just a tightening of standards. "Look at this way, years ago people would develop something on a contaminated piece of land. The standards were not as high. Today no one dares develop sites on contaminated land."

