

Financial Feasibility of LEED Certified Buildings for Developers and Investors

Preliminary Research

Interview Questions

Do you have experience with LEED certification? If so, how did you get it and what are your qualifications?

Does your company have any specific strategies regarding LEED on either acquisitions or developments? If so explain, if not, why not?

Do you see any benefits to your company by investing in LEED certified buildings? If so, what are they? If not, why?

Do you see any drawbacks to investing in LEED certified buildings? If so, what are they?

What ways do you see to overcome the upfront costs of developing a LEED certified building?

Have you noticed LEED certified buildings having a premium resale value? If so, what reasons do you think accommodate this?

Do you know if tenants have a preference for LEED certified buildings in the areas your company invests in? Why or why not may this be the case?

Are there any specific geographic areas your company invests in or knows about where LEED certified buildings have premium resale values or more demand for tenants?

Do you know of any additional maintenance costs to for LEED certified buildings? If so, please explain.

Does your company currently own any LEED certified buildings? If yes where are they located, and if no why not?



Abstract

This is a case study on a small to mid-size private equity firm that deals with real estate development as well as investment to find out the financial feasibility of LEED certified buildings in today's building climate. Interviews with two investment analysts at this firm who are versed in LEED certification about how it is looked at in their company as well as the broader industry will give insights into the feasibility of developing or investing in environmentally friendly buildings. This impacts the real estate and construction industries due to the fact that developers and investors are often times a large part of the clientele for contractors. This paper will look to industry professionals to find out some of the conditions that are needed in order to make capital investments in LEED buildings, such as geographic location, tenant motivation, and large institutional sized products. The findings of this study were that for medium to small sized investors and developers focused on maximizing rate of return through short hold periods, there are little incentives to invest in LEED certified buildings, however the analysts acknowledge that there are benefits and could be effectively implemented in long hold approaches or for very large institutional investments.

Key Words: LEED certified, real estate, financial feasibility, investment, development, environmentally friendly, green

When LEED Certified Buildings are Financially Feasible

- Long term hold periods
- Large institutional products (50+ million dollars)
- Single tenant buildings with green motivations
- When tenant and investor expectations of green practices align

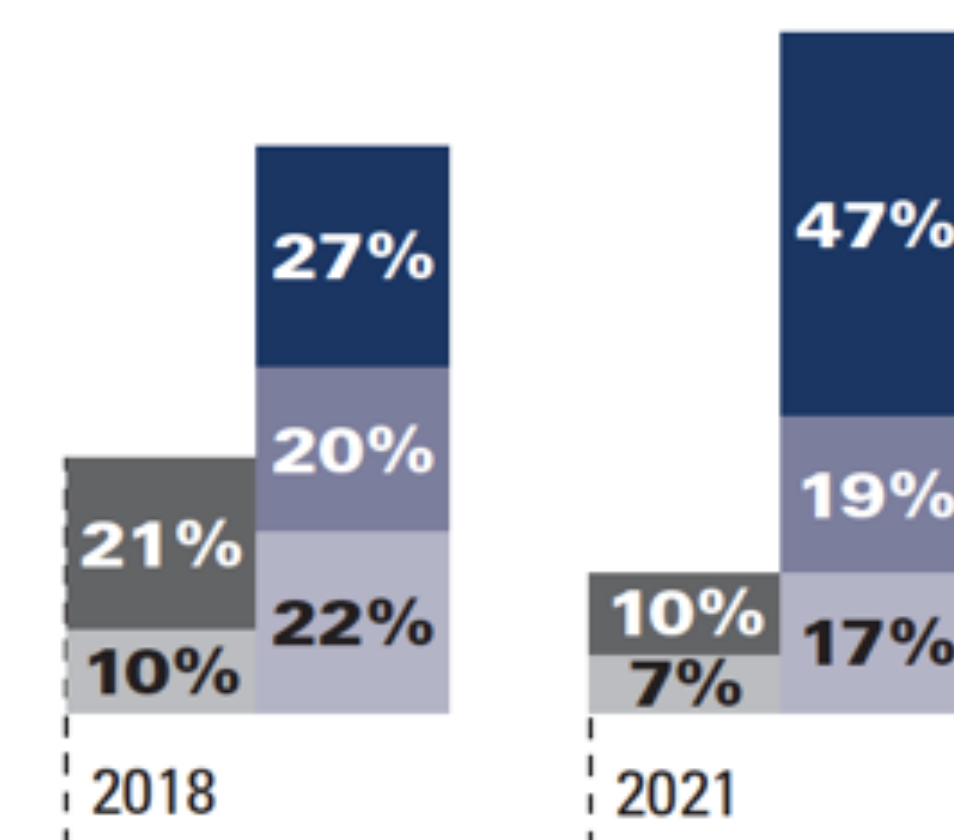
When LEED Certified Buildings are NOT Financially Feasible

- Short term hold periods
- Small to medium sized products (10 - 25 million dollars)
- When trying to maximize profits for individual investors

Level of Green Building Activity (According to Global Respondents)

Dodge Data & Analytics, 2018

■ 1% to 15% Green Projects ■ More Than 60% Green Projects
■ Exploring (No Green Involvement) ■ 31% to 60% Green Projects
■ 16% to 30% Green Projects



Extra Costs to Go Green by Region

Market	Platinum	Gold	Silver
UCSB	7.8%	2.7%	1%
San Francisco	7.8%	2.7%	1%
Merced	10.3%	5.3%	3.7%
Denver	7.6%	2.8%	1.2%
Boston	8.8%	4.2%	2.6%
Houston	9.1%	6.3%	1.7%