

By Lindsay Minard



LAST CALL FOR GREEN Green Retrofit Presents Second Chance to Contractors that Have Yet to Embrace Green

Commercial construction companies that shrugged off green building several years ago are facing the stark reality that what they thought might be a passing trend is here to stay and now it is time to play catch-up.

The green buzz for the last several years has focused on new construction. Existing buildings that make up the majority of the country's construction inventory were able to duck the radar until the recession found them. With new commercial construction at a halt, the green movement has now had the time to focus on existing buildings and pose the question, "Will these buildings hold the same value and be able to compete in the increasingly green built environment?"

With a new focus on green retrofit comes a new set of buzzwords that sound more substantial and familiar in the industry and are giving construction companies a second chance to capitalize on the market.

Commercial construction companies looking to maintain, invent and reinvent their green portfolios need to become familiar with terms such as green retrofit, energy efficient, water efficient and existing buildings. Whether a contractor is actively building green, still trying to get its feet wet or bucking the system, these are terms that make sense in this economic climate. Couple the common sense fac-

tor with not only the public's interest in all things green, but also the government's, and a new market emerges that puts projects in the pipeline for contractors willing to wade into it.

"Over the next 15 to 20 years, 80 percent of existing buildings are going to need to be retrofitted because they are outdated; that coupled with the government stimulus package provisions to modernize buildings, particularly federal buildings, is going to create a market that contractors can look to specialize in," states Drew Langsam, sustainability director for Turner Construction Co.'s Washington office.

The What and Why

The What

Like a traditional retrofit, the idea of a green retrofit is to upgrade the building, improving its performance and efficiency. The distinction between the two is in the materials, technologies and processes. Green retrofit can be as simple as switching to more efficient light bulbs or as complex as upgrading the skin and roof of a building along with its electrical, mechanical and plumbing systems to produce a higher efficiency building.

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“The proverbial low hanging fruit is what first attracts owners first to green retrofit; energy efficient lighting is very popular. Efficient mechanical systems, green roofs and window upgrades can be more complex but are very beneficial. Correct operation of systems is also key. Efficient equipment run the wrong way will not perform up to design specifications. Knowing how to run equipment correctly is crucial to achieving efficiencies,” explains Michael Deane, vice president and Chief Sustainability Officer, Turner Construction Co.

The Why

During the boom commercial property owners were not concerned with competing against the green market because they were not stuck holding on to properties void of tenants. Their tune changed with the major shift from seller’s to buyer’s market. Today owners are sticking with their existing properties and evaluating how they can compete in the green market. Green retrofit is the answer to their need. Now contractors just need to learn how to deliver.

Commercial property owners have time on their hands, money on their minds and increasing amounts of tenant space; they want to green retrofit even if they do not know it yet. “To green retrofit is going to be a hot market as owners become increasingly aware that they have to do something green so when they sell their building in 20 years they do not sell for less value,” states J.J. McCarthy, president and CEO of JJMC, LLC.

So are contractors getting the hint? For commercial construction companies that are not currently on the forefront of the green building movement, a change of focus to the virtually untapped green retrofit market is a second chance at getting ahead of the green curve. Most of the contractors that have experience in green new construction have not tapped into the green retrofit market yet; so today the playing field is leveled. Here is a second chance; take it.

“I can say with confidence that to stay competitive in this industry, in this market, companies need to understand green and be able to execute it in a cost effective manner; that is abundantly important. Companies that feel they are a little behind are a little behind. But that is not to say they cannot catch up; it is imperative they do,” states Bryna Dunn, director of Environmental Planning and Research and a vice president of Moseley Architects.

Selling Points

Stay Competitive on a Budget

A LEED certification adds a huge value to a property, recession or not, and it is something that owners proudly (and rightfully) advertise. The more the public is educated on the cost savings of living in a green environment the more demand there is for green building. Washington, D.C. recently passed a bill requiring all buildings to publish their energy star scores when they go on the market and the bill is now being considered at the national level.

According to a study conducted by Deloitte and Charles Lockwood entitled *The Dollars and Sense of Green Retrofit*, companies that do not have a green work environment will be behind in market share in three years because of higher operating costs, lower productivity, decreased interest by and retention of skilled employees and a negative brand image. Hmmmm...sound like selling points?

“Sure, companies will be able to lease or sell traditional buildings because not everyone is clamoring for green buildings yet; however, traditional properties will not get top dollar value,” contemplates McCarthy.

Some commercial construction companies struggled early on with the green revolution because of its lack of cold hard facts; but just take a look at the clear data supporting green retrofit. The Deloitte/Lockwood study references a survey conducted by CoStar Group in April 2008. The survey determined that LEED certified buildings are renting at \$11.24 per square foot over their traditional competitors and have a 3.8 percent higher occupancy rate; the study also concludes that LEED certified buildings sell at \$171 more per square foot than their traditional counterparts.

Owners of existing buildings need to green retrofit in order to stay competitive. It is an affordable solution with a relatively quick payback that will keep them in the game. “There is a lot you can do for existing buildings to improve their environmental outcome. If they are not upgraded they will lose value; owners that have building tenants that can move in and out are going to struggle to keep their buildings leased as tenants who are paying utilities look to lease more efficient properties. If they do not get on board they will eventually find themselves at a competitive disadvantage much like contractors who fail to see the light as well,” explains Dunn.

The Government Has Money and Wants Green

“A major source of construction funding today is the federal stimulus, and the government is purposefully emphasizing green retrofits of existing buildings. Ninety percent of the buildings that will be around in 2030 are here today; so there are opportunities as the focus shifts from new projects to existing ones,” explains Deane.

Like it or not, the federal government has money to spend and the money they are spending in terms of construction is focused on higher ROI strategies and procedures, more efficient systems and healthier indoor environments that increase productivity and human comfort and keep them competitive in the marketplace.

Remember how quickly the green building revolution caught on in the mainstream industry? From 2007 to 2008 green building initiatives went from obscurity to impacting every commercial contractor's business, positively or negatively. Firms that did not take the initial risk and step out on the forefront of the movement are getting educated as an afterthought and trying to catch a break on a green job, in a recession.

The stimulus bill was likely a wake up call for commercial construction companies still dragging their feet on the whole "green thing." Those dabbling in the public sector for the first time without green building experience found out quickly that green was a prerequisite to getting that work. Seventy-five percent of federal buildings are to be green retrofitted, the GSA has a LEED certification attached to new construction and is working towards green retrofit for existing buildings and the DOD has a LEED silver requirement on new buildings. The private market has not been immune to the requirements; developers that lease private buildings to government agencies either lose their big wig tenants or work towards the specified LEED certification.

Executive Order 13423 has requirements for new construction and existing buildings for all federal agencies. It states that 15 percent of agencies' existing inventories must comply with the Federal Leadership in High Performance and Sustainable Buildings Memorandum of Understanding (MOU)'s guiding principals by 2015. These guiding principals are sustainable concepts for not only new construction, but existing buildings as well.

"When you look at the DOD, you have got to look at how many buildings we build a year versus our total inventory. To really have an impact and improve building performance, significant value has to be placed on improving existing buildings," explains Dennis Talton, head of the Sustainable Design Program for the Navy. "The Executive Order has raised attention that sustainable design pertains to more than new construction."

One last factor that commercial property owners may need to be made aware of is the fact that this is not the end of environmental

legislation. "There is talk that buildings will be given an allowance of carbon output and if the building exceeds that output they will be taxed," says McCarthy.

Today You are Ahead of the Curve, Tomorrow Who Knows?

The Deloitte/Lockwood study suggests that now rather than later is the time for property owners to capitalize on the green retrofit market. The tax and regulatory incentives that exist today will likely disappear as more jurisdictions institute green building construction and renovation/retrofit regulations.

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Both commercial contractors and commercial property owners that figure out the green retrofit market today are on the forefront of a new market. But like the green building movement in new construction, it will only be a matter of time before green retrofit starts to sound like the standard and owners turn to the contractors with green retrofit experience instead of taking a chance on a company still looking to get their feet wet on a green retrofit job.

Opportunities and Benefits for Contractors

The USGBC released LEED for existing buildings, operations and maintenance in 2008. While the original rating system for

existing buildings did not catch much traction as it was too similar to the rating system for new construction, the 2008 version focuses on operations and maintenance. The number of LEED registered existing buildings jumped from 30 in 2007 to 200 in 2008. "The market was ready and has shown it likes the new rating system. There is a lot to be done in terms of operations and maintenance in the market; these numbers are just going to continue to grow," asserts Melissa Gallagher-Rogers, manager of the government sectors, U.S. Green Building Council.

Virginia contractors are being provided a unique opportunity by the green retrofit market. By 2012 there will be a new policy in place in D.C. that stipulates all new commercial and non-commercial construction be LEED certified. Advertising LEED to potential tenants of new buildings will slow as a market advantage in D.C. with LEED is quickly becoming the standard. Although Virginia is number eight in the country of states having the most LEED certified or registered projects, the state's market is a bit behind the D.C. market, giving Virginia building contractors, at this moment, the chance to beat the competition and take the early adapter market advantage.

"There is a great opportunity in the green retrofit market for contractors who can offer the services. The contractors who can offer these services are selling a better product and that is going to save clients money, be a distinguishing factor for the business and generate positive word of mouth advertising for their business," affirms Gallagher-Rogers.



A business that seizes the opportunity, gets educated and gets its feet wet is one project away from being an expert in a new market. “There are opportunities for contractors in both negotiated and bid work. It is a big selling point to be able to propose to an owner items that better his or her product; but you cannot propose or bid if you do not know what you are doing. Contractors need to get educated; know the “green” stats of a building and be able to educate their clients on those stats and the dollar value behind green retrofit,” asserts Rob Berz, registered architect and sustainability director, RRMM Architects and board member of the Hampton Roads U.S. Green Building Council.

“On our projects where contractors are taking green building seriously, I see cleaner jobsites, less waste, better schedule coordination and very positive owner-contractor-design teams relationships as all rally around high performance and environmental responsibility,” concludes Berz.

Last Chance

“Companies may not be going out of business because they cannot or have not done a LEED certified project, but I can tell you that we were selected to do a project by a developer we have never worked with because we understood the LEED criteria and knew how to manage it. They did not even ask the contractors they typically work with. That is a warning sign that contractors that are not on board with green may not be out of business, but they are losing business,” states Langsam.

Rarely are companies given a second chance to penetrate a market and opportunities during this recession are few and far between. For the most part, commercial construction firms that waited to go green realize now the impact it has and will continue to have on building practices. According to the USGBC, from 2007 to 2008 the number of certified LEED professionals increased by 20,000, showing the increased demand for the information and acceptance of the trend as a potential standard.

Because of the scope of work that green retrofit can encompass there are plenty of opportunities for not only subcontractors but also general contractors. Renovation/retrofit may be a new market for a company, but should not be ignored as it provides real potential in today’s economy for jobs in the pipeline. And for those contractors who missed the boat on green new construction, green retrofit could be where they find their niche in the green market.

Companies choosing to ignore the green retrofit building technologies, or making excuses about initial costs, unknown complexities or lack of current, local market demand are losing market share. That loss will exponentially increase when the market turns around if those businesses do not use this time to educate themselves and work on getting that first job under their belt, whether in new construction or retrofit.

“A lot of contractors are cutting their teeth on new technologies, going through the training in the down market. It is painful for them, but when the economy heats up again they will be able to provide a distinguishable service and product. Contractors staying away from sustainable technologies, specifically plumbing, mechanical and electrical contractors are not going to be able to put together a proper bid and there is no worse time to be screwing up a bid,” explains Berz.

Conclusion

The commercial construction industry is comprised of lifelong business relationships built on trust in the expertise of a company and the quality of their product. Falling into the trap of a trend or jumping into a new market is uncommon for most commercial contractors. But, in the reality of this recession more than a few in the industry now realize that while green may be a buzzword, it is certainly not a trend, and the private market where they likely have delivered their best product is currently shut down.



For those contractors willing to take the leap, green retrofit is an easy sell and virtually untapped at this time. But just as green building took off in new construction; green retrofit will not stay quiet for long. Now is the time to be a forward thinker, take a risk and reap the benefits.

With the government on board, current green building practices will likely become standard sooner than most think to make room for the next set of innovations in sustainable building; once that happens it could be game over for those companies that refused to see the light. “I think we are very close to green building practices becoming standard. I think with the new administration’s green initiatives backing up the states’ and cities’ efforts, in five years or less we will see a new standard,” says Deane.

“Today businesses not actively getting on board with green are somewhat behind; in another year or two they may find themselves out of business. Companies that are not paying attention are going to continue to throw money at projects and not win anything because they do not know how to price these jobs and that will put them out of business in today’s economy. Companies have to know what they are bidding on and a lot of projects are aiming for a LEED certification or high performance strategies inspired by LEED. To stay competitive and to stay in business, companies have to understand it,” asserts Dunn.