

Going green turns to gold for developers

Forward-thinking projects benefiting from sharp demand for environmentally sound office space

TERRENCE BELFORD

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Nobody ever called Rudy Bratty a tree hugger. For the past four decades, his family company, **Remington Group Inc.**, has been in the forefront of real estate development in the Greater Toronto Area, building everything from skyscrapers to single family houses. He readily admits preserving the environment just was not a consideration during many of those years.

Today, however, Mr. Bratty admits to a conversion of sorts. With his new \$3-billion project northeast of Toronto, he has embraced green with fervour. Called Downtown Markham, all 243 acres of it will be the largest LEED-certified (Leadership in Energy and Environmental Design) project to date in Canada.

At the same time, Downtown Markham is going green in another direction -- this time it is the green of dollars. Commercial tenant demand for environmentally sound office space is booming. A decision made in part from a desire to leave a legacy has proved to have a major financial benefit as well.

"I have three triple-A tenants lining up to take space, and each of them is looking for more than 100,000 square feet of space," said Mr. Bratty, Remington's chairman and

CEO. "There is tremendous demand from major corporations, especially public companies, which want to be seen as promoting environmental protection."

When completed 10 years down the road, Downtown Markham will be home to between four million and 4.5 million square feet of new commercial space (plus 3,900 condominiums and townhouses). All will be built to the LEED rating system standards overseen by the Canada Green Building Council.

But Mr. Bratty has not stopped there. His team is rebuilding an old waterway and reconnecting it to the Rouge River Valley to replenish fish stocks. He has also signed a deal with Markham District Energy Inc. to provide environmentally friendly heating and air conditioning to the commercial towers and 175 townhouses, another Canadian first.

"In environmental terms, on a scale of one to 10, the land was a negative five," says Rudy Bucolitz, Remington Group's vice-president of land development. "Now we can safely say it is up to an eight or nine."

Granted, going green was not Mr. Bratty's original intent. His company has held the land for 25 years; development won approval in 1994 and at that time he was going to create a traditional housing project, thousands of single-family and semi-detached homes, cheek by jowl, and maybe some industrial buildings along the planned route for Highway 407, he says.

"Nobody thought about the environmental impact in those days," he explains.

Then, Markham mayor Don Cousens came to him with an idea. He wanted a master-planned new city centre, a showplace that would focus on intensification while preserving and maintaining the environment.

"I have to admit, I had never even thought about it," Mr. Bratty says. "But the more I thought, the more convinced I became that this was the way to go and Remington was the company to lead the way. When I signed on, all the guys in the industry told me I was nuts."

That was then. Today, the industry sees Mr. Bratty as perceptive indeed. By luck or crystal ball vision or a combination of both, he is now positioned in the vanguard of a

movement whose time has come. In the world of commercial real estate, going green not only satisfies the soul but fills the pocketbook as well.

"What we are looking at is a form of serendipity," says Paul Morse, senior vice-president of leasing at Cushman & Wakefield LePage Inc. "A whole range of factors have come together to make going green both socially preferable and economically sound."

Without the latter, green commercial projects would still be on tenants' wish lists, he says. The factor that tipped the scales is operating costs. While following LEED standards can cost up to \$10 a square foot more in construction costs, reduced operating expenses can wipe out that extra upfront payout within a matter of a few years, Mr. Bratty says.

"We are finding the extra cost to be anywhere from \$3 to \$6 a square foot," says Andrew Pride, vice-president of energy management at Ottawa-based Minto Developments Inc. "At the same time, we expect a payback after four or five years.

Minto's new 19-storey tower at Minto Place, situated at Laurier and Lyon streets in Ottawa, will be the city's first LEED-certified commercial tower.

"For tenants, it may mean an extra 50 cents a [square] foot on the base lease but they wind up savings \$1 a foot on operating costs after three or four years. With commercial leases running 15 or 20 years, you can easily see the benefit to tenants," he says. "How does this not make sense?"

By the end of June, 44 major projects had received LEED certification across Canada, according to the Green Building Council. British Columbia leads the way with 18, followed by Alberta with 12, Ontario with 11, Quebec with two and Manitoba with one. Since then, however, Menkes Developments announced that its new Telus tower at 25 York Street in Toronto would be LEED certified.

"Going green has begun to make good business sense," says Gord Hicks, president of Brookfield LePage Johnson Controls Ltd. of Markham, which manages 80 million square feet of commercial space across Canada. "Tenants are increasingly trying to reduce or control real estate costs. They are putting more people in less space.

"As they do, they have to be concerned about air quality, circulation, all those health issues. A LEED certification is third-party verification that buildings meet certain environmental standards. At the same time, it makes financial sense because it reduces ongoing operating costs, especially heat, light and air conditioning."

Stan Krawitz, president of Real Facilities Inc., a real estate consulting company, says he has four clients looking for LEED-certified space at the moment: a hospital, which needs 125,000 square feet; an engineering firm looking for 65,000 square feet; an architectural firm seeking 100,000 square feet; and a consulting firm, which needs 45,000 square feet.

For the architects and the engineers, there is another factor at play, he says. "They are advising clients that LEED is the way to go so they have to set an example and find LEED space themselves."

In the 1970s and 1980s, the industry focused on construction costs, says John O'Toole, executive vice-president at CB Richard Ellis Ltd. During the 1990s, a collapse of the commercial space market meant little new construction was undertaken.

"Now, with this next generation of buildings it is a whole new ballgame," he says. "Efficiency, sustainability and financial impact are now the three key words."

While the green focus has largely been on new construction, LEED also offers a version of renovating existing buildings, Mr. Hicks says. Part of its attractiveness is the grants available from energy utilities and various levels of government.

"If you are going to spend \$10-million to retrofit a building to become more energy efficient, you can often get between \$500,000 and \$700,000 in grants. Combine that with today's low interest rates and a five-year payback, and LEED looks very good indeed."



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