VANCOUVER VALUATION ACCORD

Case Study 6

The Henry
1025 NW Couch Street, Portland, Oregon

Contents

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Review:

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Outline

123-unit residential project part of 4.6 acre mixed-use development, LEED® Gold. Exceeded developer's viability expectations. Green aspects did not affect financing. Energy and recycling benefits produced cost savings. Value enhancement/attraction represented by agent as exceeding general market level.

Project Description

This 123-unit, 15-story luxury condominium was the first high-rise condominium building in the US to achieve LEED Gold certification. The project has proven to be immensely successful, surpassing both financial and performance expectations. The development sold out nine months before construction was completed. The Henry is part of the five-block, 4.6 acre green redevelopment known as the Brewery Blocks that was developed by Gerding Edlen Development.

This mixed-use, transit-oriented development has become the nucleus of the trendy, redeveloping urban neighborhood known as the Pearl District in northwest Portland, OR. After much public reinvestment and planning, this dense mixed-use neighborhood is now known for its high-end condos, upscale shopping, excellent restaurants and entertainment, rather than the industrial buildings and artists' lofts that first attracted entrepreneurial interest in the 1980's.

Rationale/Business Case

The Henry is part of the larger Brewery Blocks development and as such, was developed with the same goals as the project overall. One of the main guiding principles of the Brewery Blocks' master plan and design was to "create a 24-hour live/work/play environment, with a balanced mix of uses". Energy efficiency, environmentally responsible practices and products, and high quality building design and materials were all successfully incorporated into The Henry.

The primary goal of the developer went beyond mere point gathering to achieve LEED status to an ongoing public commitment to build developments that are sustainable and environmentally friendly.

Additional imperatives included "a rigorous approach to energy efficiency and demolition waste recycling" according to Dennis Wilde, Brewery Blocks Senior Project Manager. An equal commitment to historic preservation combined to create an overall holistic approach to the development decisions made for this project. This is not to say financial considerations were less important, but the overall project goals remained the driving factors in development decisions. According to Mark Edlen, the green aspects were never an issue with regard to financing; it was the market challenges and conditions that any significant development project faces.

KEY GREEN FEATURES

- Some of the more significant green elements of the project are summarized below:

Figure 1

SITE / LOCATION

- The project is located on a streetcar line and in short walking distance of several bus lines, within a dense urban environment.
- Situated on the site of a former brewery and warehouses, the site afforded major reclamation and remediation opportunities.

MATERIALS & RESOURCES

- On a material cost basis, 49% of all building materials were sourced locally (within 500 miles), and 60% of materials contain (either or both) post-consumer or post-industrial recycled content.
- The project achieved a demolition waste recycling rate of over 94% and used over 50% FSC certified wood.
- Low VOC paints and low toxicity finishes were mandated by the developer.
- FSC certified wood was used for all of the cabinetry and over half of all flooring and subflooring.

WATER EFFICIENCY

- Low-flow fixtures and dual-flush toilets were used throughout.
- Water use was reduced by 35% over baseline.

ENERGY & ATMOSPHERE

- Total energy usage is 1/3 below the original energy design model results and less than half of the original baseline energy model.

- This means the building is using over 50% less energy than a similar building built to code standards, which is resulting in annual savings of $58,700.
- Energy cost savings, estimated by applying 2005 utility rates to the difference between actual and baseline usage, are estimated to be approximately $.50/conditioned square foot per year.
- A highly efficient envelope, exhaust air heat recovery, variable speed exhaust fans, high efficiency water heating, and a highly efficient lighting design contribute to overall energy savings.
- A more efficient district chilled water plant provides chilled water for building cooling.
- Full building commissioning was completed to verify and ensure the entire building is designed, constructed and calibrated to operate as intended.

INDOOR AIR QUALITY

- Operable windows allow for natural ventilation and fresh air as desired.
- The use of low VOC paints, adhesives, carpets, and other finish materials prevents persistent off-gassing and results in excellent indoor air quality.
- Walk-off mats at all building entries prevent contaminants from entering the building.
- Safe, environmentally responsible janitorial practices and free green cleaning supplies to residents.

Importance of Green Features in Attracting Owners, Tenants. The Henry attracted more sophisticated buyers who recognized the benefits of an upscale urban location, and both appreciated the opportunity for a healthier living environment and acknowledged the positive environmental implications of a green building. The Henry has also proven to be an ideal in-town location for young professionals and more mature single and move-down buyers: next to a streetcar and newly renovated (LEED Platinum) theatre; proximate to shopping, trendy and fine dining restaurants and of the other amenities of a vibrant downtown urban environment.

Discussions with representatives as well as owners indicated that the property's LEED Gold certification, as well as the belief that green features make the building a healthier and more enjoyable environment in which to live, contribute to and enhance the value of the units.

Other Impacts on the Environment. The Henry's location within a significant urban redevelopment project preserves the surrounding environment by redeveloping within existing infrastructure (schools, transportation, sewer, utilities, public safety etc), as opposed to expanding into green field development. Its urban setting also precludes the need for additional infrastructure and transportation that further deplete natural resources.

Figure 2

SOCIAL

Retail tenants on the ground floor of The Henry are all given a Green Tenant Manual to explain the goals and obligations of occupying a green building. The developer lists financial incentives as well as health and productivity benefits to "greening" the tenant improvements and maintaining the indoor air quality by using the recommended green cleaning supplies. Cleaning products are provided for free on a 6-month trial basis.

LOCAL/REGIONAL EFFECTS.

Gerding Edlen and the Brewery Blocks have had a major influence on the character of the Pearl District and the city as a whole, creating a high profile for Portland as a city that is recognized as a pioneer in incorporating sustainable principles into successful real estate development. Gerding Edlen's innovative approaches in teaming with other talented and creative design and engineering partners have established both their company and Portland as a leader among cities that are moving toward environmental responsibility.

The benefits and professional recognition that have accrued to Gerding Edlen as a direct result of this development are numerous. A few are listed below:

Bob Gerding:

- Honored Citizen Award 2006, Architecture Foundation of Oregon
- Oregon Developer of the Year 2005, NW Construction Magazine

Dennis Wilde:

- Better Bricks Award 2004
- Urban Pioneer Award 2007, Portland State University
- Most Admired Company – Real Estate Sector 2006, Portland Business Journal
- AIA Sustainability Award 2004

Figure 3

According to Dennis Wilde, one of the additional benefits of their commitment to sustainability has been the introduction to innovative new business partners and more and varied

development opportunities. Their expertise has increased to the point that they can complete projects that achieve basic LEED certification at no additional cost, and in fact, in some cases with notable savings. Their commitment to continually pushing the envelope and exploring higher levels of building sustainability has garnered the company opportunities to participate in some of the most cutting-edge development on the West Coast.

Absenteeism, Health Issues and Productivity Levels. Since The Henry is a condominium development, information on "absenteeism and productivity" is not available. However, the preponderance of market information about the property, as well as owner and developer interviews, suggests there is a strong belief that The Henry provides a healthier living environment than other, "non-green" downtown condominium developments.

ECONOMIC

The project development cost estimates in the table below does not separate out parking and storage areas from unit sales, thus an accurate estimate for the individual units cannot be determined. The same is true for the sales data provided; however, gross sales revenues indicate that the project achieved a profit of approximately $9.1 million or 16%.

Information on units sold and closed at The Henry is shown in the table below. The property sold out nine months prior to completion at prices at the top end of the Portland condominium market. The units have continued to hold their values and surpass their competition in the rate of appreciation experienced since initial purchase.

Unit Sales: The Henry 2004 - 2006

	Avg. List Price/SF	Avg. Sales Price/SF	% Change List Price	% Change Sales Price
2004	$418	$411	N/A	N/A
2005	$491	$483	17.50%	17.50%
2006	$632	$604	28.70%	25.00%
2004-06	-	-	51.20%	46.90%

Source: Portland RMLS

Project Development Costs	
Site costs	$4,133,258
Construction costs	36,962,222
A&E and Misc soft costs	5,521,867
Sales costs	1,015,718
Financing costs	2,263,807
Total Costs	$49,896,872

Source: Gerding Edlen Development

Figure 4

FINDINGS / POST OCCUPANCY EVALUATION

While findings from an independent Post Occupancy Evaluation study completed by Cathy Turner for the Cascadia Chapter of the US Green Building Council were positive overall, the savings estimates (for all projects) varied widely depending upon the calculation method used. Evaluations in the study compared actual energy and water use information with two forms of modeled use:

- LEED baseline cases for a similar building's water and energy use and

- The modeled usage in the initial building design.

The baseline approximates a similarly designed building constructed to meet code requirements; it is modeled using the energy efficiency features of the as-designed model. The information on the usage as modeled in the original building design reflects the energy efficiency features per actual initial design plans.

To date, the various design teams involved in systems integration have not typically gathered adequate information to complete the type of cost benefit analysis that would be useful in property valuation. However, enough information was provided by Solarc Architecture +Engineering, Inc. to complete at least a partial analysis on energy components and projected savings for The Henry.

The energy components of the building were selected and integrated to provide maximum efficiency and performance. Total costs for lighting, space heating and cooling, pumps, heat rejection, fans, service water heating and equipment were $303,890.

Energy modeling for the project reflected a reduction in anticipated annual costs from $209,628 for a traditionally constructed building to $140,520 for The Henry. This translates to an annual savings of $69,108 in energy costs. Over a 10-year hold, the savings would more than offset the initial costs, as well as provide ongoing benefit to unit owners. In addition, as evidenced in the Post Occupancy Evaluation performed on The Henry, the building actually exceeded the original savings projections.

VALUATION ASPECTS

Implicit in the definition of Market Value is market recognition of the "value" of a property, property sector or property type. The valuer needs to determine whether or not a given market acknowledges the value of the property characteristics that constitute a sustainable property and to what degree standards such as LEED certification impact marketability and other aspects of value.

Gerding Edlen's redevelopment of this neighborhood in Portland has received high market acceptance. As in many cases, it is a challenge to quantify the contributory value of the green features to the project's overall success. Until such time as a greater body of empirical data can be assimilated, the valuer will have to rely on more anecdotal indications of the market value of these elements.

Commissioning could well serve to diminish the risk involved with systems operations and associated with projections of savings from energy efficient products and practices. This could impact not only risk assessment, but also overall risk parameters for the property in comparison to less efficient or "non- green" comparables.

The completion of post occupancy evaluations by third party experts will help validate or invalidate performance projections as well as either support or dispel the value of commissioning.

While water conservation measures are increasingly being incorporated into sustainable projects, many of the products and processes that facilitate this practice do not currently appear to be financially justifiable.

In arid regions where water is a rarer and more valuable commodity, it is possible that these components may be assessed differently than in locations where conservation of this resource is based more on environmental responsibility than practical necessity.

With regard to the Portland area specifically (and possibly others?), there is an increasing number of real estate agents who are classifying themselves as "eco-brokers". This would suggest a growing recognition of the value of: (1) being more informed about environmentally friendly/sustainable properties; and (2) the ability to identify which properties in the market possess those characteristics.

INTERVIEW

Ms. Marten is broker with Prudential Northwest Properties who purchased a unit at The Henry in October 2004. At purchase, there were 17 condominium units for sale in The Pearl District where The Henry is located. Her decision to buy a unit at The Henry was based upon the high quality of construction and finishes, its location, and its amenity package, particularly the concierge services. The fact that the project held a LEED Gold certification did not influence her original decision to buy.

Ms. Marten has a different opinion of the value of LEED certification today. As a residential real estate specialist, she is intimately aware of market trends and consumer preferences. Her perception is that The Henry has held its value better than any other condominium project in The Pearl. She attributes this primarily to the LEED certification. In her opinion, though other projects may claim to use sustainable practices and products, the real validation of the standard to which a property has been built is the achievement of the LEED certification.

As noted previously, characteristics that earned the LEED Gold certification for the Henry included a high level of systems integration and efficiency. Though charged only $20 per month for electricity, Ms. Marten stated she often gets rebates – as much as $48 for a given six-month period. The building is maintained sustainably, offering recycling capabilities and she is provided "green" cleaning supplies at no additional fee.

Ms. Marten believes the standard set by the Gold certification will enhance the marketability and value of her unit when she puts in on the market in the fall of this year. She plans to move into a larger unit in another Gerding Edlen project, The Casey, projected to achieve LEED Platinum certification, the highest sustainable standard currently available through the US Green Building Council. The Casey will have even higher end finishes, along with the capability to be "smart homes". According to Ms. Marten, the standard finishes at The Casey are equivalent to penthouse finishes in other condominium buildings. She firmly believes that the LEED Platinum certification will not only ensure the units

Figure 5

hold their value, but also enhance their marketability and re-sale potential.

In addition to the investment potential, Ms. Marten stated: "What makes Gerding Edlen projects so unique [and attractive] is that they are green AND luxurious."