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The Real Cost of Sustainable Building

Martin Melaver Phyllis Mueller

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THE GREEN BUILDING BOTTOM LINE

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A mainstay in the green building market since 2006, *GreenSource* magazine and GreenSourceMag.com are produced by the editors of McGraw-Hill Construction, in partnership with editors at BuildingGreen, Inc., with support from the United States Green Building Council. *GreenSource* has received numerous awards, including American Business Media's 2008 Neal Award for Best Website and 2007 Neal Award for Best Start-up Publication, and FOLIO magazine's 2007 Ozzie Awards for "Best Design, New Magazine" and "Best Overall Design." Recognized for responding to the needs and demands of the profession, *GreenSource* is a leader in covering noteworthy trends in sustainable design and best practice case studies. Its award-winning content will continue to benefit key specifiers and buyers in the green design and construction industry through the books in the *GreenSource* Series.

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It takes a village. That's the essence of this book, the essence of the sustainability movement in general. It literally will take all hands on deck, from all sectors of society, to restore our planet to a type of balance viable for generations to come.

Like a natural order, in which everything is interconnected, it is hard—if not impossible—to designate all the influences and mentoring of the village that have gone into the crafting of this book. So from the outset, we'd like to acknowledge the support and guidance of friends, family members, colleagues, others writing in the field of sustainability, and our random contacts from unexpected quarters, all of whom have shaped *The Green Building Bottom Line*.

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Greed to Green: The Transformation of an Industry and a Life by David Gottfried.

INTRODUCTION

MARTIN MELAVER

The genesis of *The Green Building Bottom Line* was an early Friday morning in Atlanta, Georgia—November 11, 2005—the closing day of the U.S. Green Building Council's fourth annual Greenbuild conference. A number of my colleagues at Melaver, Inc. and several close outside team members were appearing on a panel about the challenges of developing Abercorn Common, the first LEED shopping center in the country, in our company's hometown, Savannah, Georgia. The LEED program (LEED is an acronym for Leadership in Energy and Environmental Design) had been created a few years before by the U.S. Green Building Council as an independently verified, points-driven set of development criteria assessing five major areas: site management, water consumption, energy efficiency, materials used, and indoor air quality. Abercorn Common was our company's second LEED project, one that we had worked on for the previous four years (and it's the subject of Chapter 5 of this book).

Instead of a typical three-person Greenbuild panel presenting on three discrete projects, a team of eight—developer, architect, builder, general contractor, legal counsel, leasing agent, marketing representative, and property manager—gathered to discuss one single project. There wasn't enough space at the podium for the entire team to sit comfortably side by side, so the members were jammed into several rows of chairs, changing places as the time came for each to speak. Rather than a slick PowerPoint presentation about success, the whole orientation of the presentation was less about putting a pretty veneer on so-called best practices and more about sharing many of the mistakes the team had made along the way.

When we had decided as a company several years back to develop all of our projects to LEED standards, Abercorn Common was already under development. At the time, less than two dozen retailers in the country had gone on record indicating a desire to build their stores to green specifications, and none of these had modified their store prototypes to accommodate LEED guidelines. Nevertheless, we charged ahead, going green midstream to develop the project to LEED criteria. And here we were, in front of a national audience of designers, developers, retailers, and other real estate professionals admitting to a long litany of mistakes.

It should have been a recipe for disaster as far as a buttoned-up professional presentation was concerned. It wasn't. There seemed to be a pent-up demand to pull back the curtains on a green project to reveal the pitfalls and challenges of going green—not for the purpose of throwing cold water on this explosive new movement for green

building, but rather to facilitate this movement by being transparent about the many challenges facing it so problems could be fixed, quickly.

Those engaged in environmental issues today, even on the most cursory of levels, understand the urgency. This environmental urgency is not confined to the familiar issues of global warming and greenhouse gas emissions but is linked to issues of consumption and waste of natural capital on a global scale. In the United States, we lose more than a million acres annually to urban sprawl, parking lots, and roads, while worldwide, we destroy 80,000 square miles of tropical forest each year.[1] Twelve million acres of once-productive land is transformed each year into desert.[2] Global warming, desertification, and loss of productive arable lands are in turn linked to the diminution of the quantity and quality of water supplies worldwide, with one-third of the world's irrigated lands suffering from saltwater intrusion. It is projected that by 2025, 40 percent of the world's population could be living with chronic water shortages.[3]

The building trade, which has played a significant role in this degradation, needs to find an alternative paradigm for shaping our lands and communities in the years to come. Part of that new paradigm-shaping needs to come not just from jettisoning an older, more consumptive, more wasteful, less ethical way of doing business, but also from being direct and forthcoming about the challenges and opportunities of a new approach to doing things. That was the impetus behind our presentation on Abercorn Common in 2005. It is also the impetus behind this book.

As I sat in the back of the room that day in November 2005, I felt proud of my company and the long, slow, patient years of work behind the presentation. Melaver, Inc. began with a corner grocery store founded by my grandmother Annie Melaver in 1940 in Savannah, Georgia. My father, Norton Melaver, grew the business over the following forty-five years into a supermarket business in and around the outlying environs of my hometown, eventually selling M&M Supermarkets to Kroger in 1985. Since then, the business has been devoted to real estate: development, acquisitions and sales, property management, and leasing. It's a family-owned business, one that since its inception has had a strong sense of core values having to do with community and the land of which that community is a part.

Early on in our entrance into the real estate business, family members felt quite strongly that we needed to practice real estate in ways that were more respectful of locale. Over time, that commitment evolved into a set of principles and practices encapsulated by the term sustainability. We develop to a minimum of LEED standards in everything we do. We avoid greenfield development, focusing our attention on urban core, largely in-fill projects. Our projects are guided by a set of triple bottom line metrics that not only call for viable economic returns, but also set threshold expectations for maximizing our positive impact on the communities in which we work (social bottom line) while minimizing our impact on the environment (environmental bottom line). Roughly 80 percent of our small staff of some thirty folks is LEED accredited, and everyone takes the exam at least once. And, despite our small size, we have participated in three of the U.S. Green Building Council's pilot programs for specific LEED programs (Core and Shell, Home, and Neighborhood Development) and account for roughly 1 percent of all LEED certifications in the country.

But even as my colleagues were making that presentation in Atlanta in 2005, I felt that there was so much more we needed to say and share with others—lessons learned, mistakes to be avoided, and opportunities to be realized for businesses that not only build greener buildings but also embrace a values-centric orientation focused on social and environmental consequences of what and how and where we build. Despite the growing awareness in the United States of all things green, the sustainability movement is still very much in its infancy, with tremendous work and a short time frame within which to do that work facing us all.[4] Moreover, there is still a prevalent belief out there in the business world today that a values-centric, sustainable orientation is not financially viable.

Political policy planner, one-time U.S. Secretary of Labor, and author Robert B. Reich laments in *Supercapitalism*:

> For many years I have preached that social responsibility and profitability converge over the long term. That's because a firm that respects and values employees, the community, and the environment eventually earns the respect and gratitude of employees, the community, and the larger society—which eventually helps the bottom line. But I've never been able to prove this proposition nor find a study that confirms it.[5]

Marc Gunther, senior writer at *Fortune* magazine and author of *Faith and Fortune,* echoes Reich's lament, noting:

> The truth is, no study has proven convincingly that social responsibility is good for business, and it may be that none ever will. The definitions are fluid and fuzzy, and the interplay between values and profitability may be too complex to be reduced to numbers.[6]

The Green Building Bottom Line is an effort to redress this lack: To provide a financially based business case study for how doing the right thing for land and community also means doing well.

The Green Building Bottom Line is composed of interwoven parts. It is partially a deep dive into the greening of Melaver, Inc., looking at the time, effort, and resources expended in shaping a company culture built from the ground up around an ethos of sustainability (Chapters 1 through 4). It is partially devoted to the examination of specific green projects we have been engaged in developing, looking particularly at the costs and benefits derived from each one (Chapters 5 through 7). And it is partially focused on the time, effort, and resources we have expended outside the company's specific projects in an effort to help the green movement become more widespread (Chapters 8 through 10). Each chapter is written either by a colleague at Melaver, Inc. or by a close associate (legal counsel, human resources counselor, marketing team member, public relations advisor) who is aligned with our values and passion and has worked with us for an extended period of time. My co-editor Phyllis Mueller and I worked with the authors to shape the stories told in each chapter—me from the inside looking out, she from the outside looking in. Each chapter has its own flavor, reflective of the particular roles the authors play in our company and of their slightly different philosophical orientations toward our collective endeavor.

The chapters build upon one another, much like our various contributions to our collective work, as author after author adds layers to the story we are trying to tell about the value of going green. The individual authors range across the political spectrum. Each has his or her own particular sense of the challenges we face and the role business can and should play in that overall effort. Many of us differ philosophically about the pace of growth for business generally, as well as the specific slow-growth strategies of Melaver, Inc. Each of us in our own lives walks the talk of sustainable practices differently. As a company, we try to give voice to these differences, even as we try to shape a synthesis from them. That is our particular strategy for how a sustainable business is shaped.

Throughout the book, there is a loose use of the terms "green" and "sustainable," often with the notion that the two terms are clearly defined and synonymous. They aren't. There's a whole body of literature devoted to the problems associated with each term and the fact that they have become so widely and uncritically used so as to mean most anything these days.[7] For the purposes of this book, "green," when applied to specific projects, typically refers to the LEED criteria upon which a green development is based. Used more broadly and generically, "green" is used in this book to convey a more systemic approach to sustainable practices having to do with minimizing our environmental footprint (the environmental bottom line) and optimizing our positive impacts upon our communities (the social bottom line). These usages reflect more or less everyday, colloquial understandings of the terms. We felt it was more useful to dig down into the practices underscoring this terminology rather than debate the fine points of the nomenclature.

Taken as a whole, *The Green Building Bottom Line* may be viewed as one extended financial analysis: a discounted cash flow statement that cumulatively tallies all of the costs our company has expended in the course of becoming a green company and views those costs in the context of the total return on our investment. The financial bottom line of this analysis is likely to surprise (and hopefully delight) most readers, as we show that it makes economic sense not only to develop a specific green project, but also to develop an entire business around sustainable values.

Because Melaver, Inc. prides itself on a culture of transparency, all of the costs itemized in the chapters are real dollars that we have expended over the past decade in our efforts to become a more sustainably oriented company. Having said that, as a privately held company, there are some sensitivities to providing complete financial disclosure. As such, we have created a fictionalized company called Green, Inc. that mirrors—but is not an exact replica of—Melaver, Inc. Green, Inc. is a smaller version of our own company. Its revenues and profitability understate the performance of our own company while using our actual cost structure. Such an approach provides a conservative and understated picture of the value of a green bottom line, though it does not provide a precise audited analysis of the value of going green.

Although virtually all of the authors who appear in this book are part of Melaver, Inc.'s speaker's bureau—a group of colleagues who devote a portion of each month to educating, advocating, and in general doing outreach into the community on sustainable practices—we rarely (if ever) get together to share what we know. In that sense,

The Green Building Bottom Line has served as a virtual meeting place for me and my colleagues, with serendipitous results.

Frankly, the results of the financial analysis undertaken in this book surprised me. My colleagues and I have long felt that we were doing well financially by doing the right things. But until we all pooled our knowledge, we had never verified our assumptions. This book has, among other things, provided us with the opportunity to examine critically every aspect of what we do, integrate those findings, and objectively assess our intuitive sense of creating value through a values-centric orientation. I had assumed that someday, perhaps far in the distant future, our early investment in green practices would make financial sense. I'm pleased to discover that this value realization has occurred much sooner than I would have believed possible.

How is it that the CEO of a company was not specifically aware of the financial benefits derived from the sustainable orientation of his company? Isn't that just a little irresponsible (not to say unacceptable)? Maybe. My group of family shareholders by and large is less focused on quarter-to-quarter performance and more attuned to long-term value creation. As such, we have been able to invest time and resources in various ways that, from time to time, have made our quarterly performance look rather miserable. Nevertheless, our year-to-year returns have been in line with standard benchmarks for our industry, enough so that we were comfortable with the feeling that our investment in green was making sense even if we didn't take the time to quantify it.

This book has enabled us to see that shorter-term and longer-term value creation are not as distinct in time as we had always thought them to be. That is good news for us, for the real estate development profession, and for a whole new paradigm for how this profession conducts its business. The story of our green bottom line is partially about the community we have created within our business, a community we think other businesses should at least consider as part of their overall strategy. Our story is partially about creating time and space for imagination and creativity to take hold.

It is also about the powerful hold of place and the need to help nurture communities that are beloved. Our story, told in the multiple voices of colleagues and associates, is about nurturing specific places through the sustainable projects we develop. It is a story of a business trying to restore its sense of wonder for the world around it. And it is a story of a community of individuals trying to serve the larger community.

NOTES

[1] David W. Orr, *Earth in Mind: On Education, Environment, and the Human Prospect* (Washington, D.C.: Island Press, 2004), p. 203.

[2] David C. Korten, *When Corporations Rule the World* (Bloomfield, Ct. and San Francisco, Calif.: Kumerian Press and Berrett-Koehler Publishers, 1995), p. 36.

[3] Edward O. Wilson, *Consilience: The Unity of Knowledge* (New York: Random House, 1998), p. 311.

[4] Edward O. Wilson, *The Future of Life* (New York: Random House, 2002), p. 151.

[5] Robert B. Reich, *Supercapitalism: The Transformation of Business, Democracy, and Everyday Life* (New York: Alfred A. Knopf, 2007), p. 171.

[6] Marc Gunther, *Faith and Fortune: The Quiet Revolution to Reform American Business* (New York: Crown Publishing, 2004), p. 261.

[7] See, for example, Eric T. Freyfogle, *Why Conservation Is Failing and How It Can Regain Ground* (New Haven: Yale University Press, 2002), Chapter 4, especially p. 114.

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