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The Cost of LEED

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The cost of LEED has been given much attention lately. Studies have shown the LEED premium to cost anywhere from 1% to 15% on average. Most architects know that those types of numbers aren't very settling to a client. Consequently, many people are still frightened by at least the variance in those price differences. In response, many studies have attempted to normalize for different variables such as certification levels, regionalism, and site conditions. The overwhelming result, though, is that no magic bullet exists other than experience. The green premium is inversely related to the experience of the design and construction team.

The other result found by veteran players is how many of the points are consistently achieved on most of their projects. Regardless of site, design, or certification level, most projects are able to achieve the points with relative ease. There are two main reasons for this type of result, one being the specification and award process and the other being in-house LEED expertise. In conjunction, the two are able achieve huge efficiency gains from continued use. The estimates for developing these in-house resources are staggering, which seem to present a huge barrier for most firms and further drive up the cost of green.

The challenge then becomes trying to convince a client to incorporate green strategies in a project without having a firm cost to do so. Throughout the design development process many points are left pending construction and occupancy information. Additionally, many of the points are integrative across disciplines and have indirect costs associated with them. More important, clients have made a tremendous commitment to the process and aren't satisfied without a certified building.

One effort to mitigate this type of risk is to structure the value offering in a bracketed or tiered approach. This allows the client to view the green premium as individual baskets of similar risk adjusted investments. For example, 80 percent of all projects by a veteran firm seem to earn the same 17 points on all of their projects at very near normal construction costs. With some statistical manipulation, a much narrower band of risk and a much smaller green premium exist, hence a better risk adjusted return. Moreover, within that tier 1 green premium, most of these costs lend themselves to a return on investment or simple payback analysis. Commissioning and high efficiency HVAC are the substantial costs within the tier 1 green premium but return themselves usually within a few years.

Tiers 2 and 3 would then have respectively higher green premiums and variance. These points have much more situational dependency and materiality premium. To achieve many of these points, clients must commit to higher cost materials and/or sacrifice some functional use which unfortunately many governing bodies expressly disallow. The cost implications of these points are also consequently much harder to determine and variant in nature.

Together as the industry progresses and LEED's designed in obsolescence pushes the standards further, we will constantly be battling a frontier of uncertainty and financial risk. In order for this industry to survive, it is imperative that financial models be developed to accommodate these types of buildings and their associated returns. Sustainable design by virtue requires a shift from the current view of purely discounted cash flows to one of resource efficiency and sustainability.



John Dunn, LEED AP, manages LEED projects for Moseley Architects' Virginia Beach office. He is also completing master of economics and MBA degrees at Old Dominion University. In addition, he is active in the Hampton Roads branch of the U.S. Green Building Council.