

## National Industrial Developer Builds Reputation on 'Green' Building Expertise

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As e-commerce sales continue to break records and drive imports to new heights, companies that manage and develop industrial real estate are benefitting almost as much as online retailers. Behemoths like Amazon, Wal-Mart, and Home Depot have an unquenchable thirst for more warehouse space and increasingly need distribution facilities and replenishment centers ensconced in densely populated areas.

Amazon alone will reportedly account for as much as 50% of the total U.S. industrial space absorption in the coming year. In Q4 '20, it announced plans to add as many as 1500 more facilities to its distribution chain in the coming years. The so-called 'Space Race' is raising eyebrows for many reasons.

The World Green Building Council estimates that residential and commercial buildings are responsible for 39% of global carbon emissions and consume about that much of the world's energy supply. Even as more consumers expect next-day and even same-day delivery, grassroots organizations are beginning to crop up across the country to shine a light on industrial developments in their backyards. Meanwhile, landlords and developers, companies that depend on these facilities and the jurisdictions that regulate their zoning and entitlements, are taking a harder look at their short and long-term environmental impact on the very communities these facilities are meant to serve.

CenterPoint Properties, a Chicago-based firm that invests in, develops and manages industrial real estate coast-to-coast, is one of a growing number of companies that seek to set a high bar for green building standards even where state and local mandates don't necessarily require it. CenterPoint builds and retrofits buildings across the country with sustainable features that earn it "green" certifications, such as Leadership in Energy and Environmental Design (LEED®) certification from the U.S. Green Building Coalition. While LEED-certified facilities offer tenants appreciable water and energy cost savings, especially over the long term, CenterPoint's motivations run deeper than pure business considerations.

"We're long-term partners in the communities we build in," said John Lass, CenterPoint Properties Vice President of Development. "We want to go above and beyond. We want to build quality buildings. We're going to hold onto them for a long time. We want our tenants to be happy," Lass said.

Lass said building codes in municipalities and counties in its core markets such as Los Angeles, the Bay Area and Seattle are written to encourage green building. Still, he says, it's become merely the standard operating procedure at CenterPoint to construct buildings throughout the West Coast that achieve LEED certification.

California, in particular, has some of the most stringent codes for sustainable building in the U.S. Its Title 24 code, a set of requirements for energy conservation and green design and construction, has been in effect for more than four decades. In 2009, the California Green Building Standards Code, "CalGreen," was added to Title 24 to outline architectural and engineering principles to reduce building' greenhouse gas emissions and energy and water waste. While these codes do force developers to build more sustainable warehouses generally, not every builder places the same emphasis on green building as CenterPoint does, as a matter of course.

"A lot of developers might say, 'I don't want to spend \$50,000 or \$100,000. I'll just put that in my pocket.' We try to build better buildings and be a better steward of the environment overall," Lass added.

## **The Future is 'Net-Zero'**

Lass and his team recently received LEED certification for its 466,000-square-foot development, CenterPoint Landing at Oakland Seaport. The new construction at the former Oakland Army Base site was not only right in the wheelhouse for CenterPoint, which has gained national notoriety for its expertise in building premium port-proximate facilities, but it was a natural fit for its development team thanks to its prowess in sustainable building, too.

Sacramento officials recently issued first-in-the-world requirements designed to improve the quality of life for the people living near port facilities, rail lines, warehouses and interstates. California has mandated that all cars and trucks sold in the state must be zero-emitting vehicles by 2045. This effort, officials say, will cut greenhouse gases by 35% and improve the level of emissions of oxides from nitrogen by a whopping 80% statewide. Trucks and vans, however, are on an even faster track. Fleet owners must begin to transition from diesel to electric zero-emissions by 2024. Short-haul drayage vehicles in ports and railyards must be zero-emitting by 2035, and "last-mile" delivery trucks and vans must be zero-emitting by 2040.

Though CenterPoint broke ground at the Port of Oakland development well before these new mandates were announced, its focus on exceeding sustainable standards proved to be prescient. CenterPoint's development team prepped that site as it has its other West Coast projects in recent years to meet today's regulatory benchmarks, the ones it forecasts will come down the pike and accommodate the additional energy needs tenants will have in the years and decades to come.

"Sustainability and power are more critical components of our facilities moving forward. As the electrification of vehicles, trucks and vans occurs, it will require more power use. We're proactively adding conduits and charging stations and these types of amenities to our warehouses," said William Lu, CenterPoint Senior Vice President of Development. "Tenants are demanding them more now. They are evaluated on their sustainable and green initiatives, and they want to have that reflected in their supply chain," Lu continued.

As consumer buying habits and shipping expectations prompt e-commerce companies to push to move their warehouses deeper into urban areas, the focus on industrial buildings' impact on the environment is intensifying. Though CenterPoint has a considerable presence in Midwestern cities like Houston and its home base, Chicago – over the past two decades, it has been developing the largest inland port in the U.S. southwest of Chicago, the 6,400-acre CenterPoint Intermodal Center in Joliet, IL – the nearly 40-year-old company has expanded to acquiring and developing infill and port-proximate properties in the top 10 industrial markets across the U.S.

In the past decade, CenterPoint has shifted its strategy to become among the most active investors in high-barrier markets such as New York City, Los Angeles, the Bay Area, Miami and Seattle, which have limited land for new developments and often comparatively older inventory. CenterPoint's development teams are tasked with repositioning newly acquired facilities to modernize and reconfigure them inside and out to suit the needs of today's industrial users. This presents an opportunity to institute the environmental upgrades necessary to fulfill CenterPoint's green mission and attract the class of tenants desirous of buildings that will be considered as high-quality decades from now as they are today. The cost to retrofit a facility with sustainable features is certainly significantly higher than building them into a new development. Still, CenterPoint is open to shouldering those costs in its quest to have a modern portfolio that is highly sought after by its most coveted users.

When CenterPoint Properties acquired the massive 1.6 million-square-foot SoCal Logistics Center in Ontario, CA, in 2019, company leaders knew they had landed one of the largest contiguous infill warehouse sites in the LA and Orange County markets.

They also knew it was truly a diamond in the rough for an e-commerce tenant looking to tap into the region's abundant labor and affluent customer base, all while having cost-effective access to the entire region's critical shipping channels. However, to meet the needs of last-mile tenants of today and the future, execs also knew they had to devote significant resources to implement a strategic repositioning plan to transform it into an environmentally sustainable, energy-efficient and truly modern logistics facility. So, CenterPoint put the ingenuity of its development team and project partners to the test to pull off an aggressive \$20 million repositioning in just nine months.

"This repositioning project perfectly showcases CenterPoint's deep commitment to developing high-performance industrial facilities that give our customers distinct environmental, economic and operational advantages," said Kim Rierson, CenterPoint's Vice President of Construction.

The sustainability features CenterPoint installs in its ground-up and repositioned developments run the gamut from employing water-saving features inside buildings and in landscaping to using high-efficiency lighting and skylights to not only cut energy use but also improve employee satisfaction. Its construction teams also prepare sites to accommodate future improvements that are on the not-that-distant horizon. For

example, CenterPoint builds larger electrical rooms, designs roofs to accommodate solar panels, and installs conduits to allow for electric vehicle charging stations in the buildings it develops to LEED standards.

## **The Growth of 'Green' Nationwide**

While California is in many respects a trailblazer among U.S. states in environmental regulation, others will surely adopt a similar tack in time, especially those along the coasts where CenterPoint operates.

Company leaders are taking steps to ensure they are ahead of the curve in environmental building practices and are betting their long-range planning will pay dividends in the years to come in its Midwest and East Coast markets, too. It has earned LEED certifications for 15 properties, including facilities in Manteca, CA, near Seattle, the Chicagoland area and South Carolina.

In 2020, CenterPoint's first-ever development in South Florida was certified "Florida Green," a designation similar to LEED, by the Florida Green Building Coalition, a nonprofit dedicated to improving the Sunshine State's building environment. The two-building, 296,000-square-foot Port Everglades International Logistics Center sits on nearly 17 acres adjacent to one of America's busiest seaports.

"We designed both buildings at the Port Everglades International Logistics Center to give tenants port immediacy, regional transportation access and every modern amenity they need with little environmental impact and significant long-term cost savings," said Brian Hollings, CenterPoint Vice President of Development.

CJ Davila, Executive Director of the Florida Green Building Coalition, lauded CenterPoint's efforts in awarding it his organization's green certifications at Port Everglades. "This achievement demonstrates CenterPoint's commitment to construction practices that reduce negative environmental impacts, improve occupant health and well-being, and reduce operating costs," said Davila.

## **Sustainability in Motion**

In addition to focusing its construction teams on earning green certifications for new developments, CenterPoint continually monitors and works to reduce water usage, energy utilization, and its properties' overall carbon footprint. That job falls on the shoulders of its Vice President of Environmental and Social Governance and Corporate Affairs, Elena Daniel. Among various tracking tools and methods, Daniel uses the ENERGY STAR® Portfolio Manager tool to make sure CenterPoint assets are performing at optimal levels from a sustainability perspective.

"CenterPoint has made it a priority to develop and manage best-in-class facilities in every sense – Buildings that offer superior strategic location and logistical advantages that are also beneficial to communities and the people that work in them," said Elena

Daniel, CenterPoint Vice President of ESG and Corporate Affairs. "We're proud that our team exceeded even our high standards in our first South Florida development."

CenterPoint recently took a significant step to weave its green building commitment into the very heart of its financial future. In Q3 '20, it closed on its first-ever green bonds issuance pursuant to the private placement of \$250 million of long-term, fixed-rate notes. Chief Financial Officer Chris Papa, one of the issuance architects and the company's Green Financing Framework, says proceeds from the green bonds will be used to fund projects, including green building construction expenditures. The money will also go toward the development and operational maintenance and acquisitions of new, existing or refurbished buildings that receive LEED, ENERGY STAR and other industry-leading certifications. The green bonds' proceeds are also eligible for funding energy-efficient projects within CenterPoint's current portfolio related to equipment systems, operational improvements, and other sustainable maintenance.

"CenterPoint's executive leadership team strongly believes this inaugural green bond issuance will greatly help us in our efforts to make a positive impact on the environment," said Chief Financial Officer Chris Papa. "This first green bond issuance is a tangible manifestation of our long-held philosophy to build better, even smarter facilities that benefit communities in a multitude of ways. We're committed to that mission, and these bonds will help us continue that effort for many years to come."

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