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The importance of commercial real estate sustainability

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What is a green building? By definition a green building is an energy efficient building that meets the standards as defined by the USGCB in Washington, D.C. These standards are based on a numerical rating system known as LEED. For commercial buildings, a project must satisfy all LEED prerequisites in which building efficiency and renewable energy represent the majority of possible points that can be earned from a minimum of 40 points on a 110-point LEED rating system scale with Certified, Silver, Gold and Platinum being the lowest to the highest grade, respectively.

Why is going green important? According IREM, the average utility costs for a typical suburban office building was 23.6% of total operating expenses (IREM, 2008). Depending on the extent of energy retrofits, renewable energy, or both, the savings can be significant. Commercial real estate owners can pursue energy efficient retrofits that will lower a building's operating costs as much as 3-15%. The installation of solar panels or small roof-mounted wind systems can decrease a building's operating costs as much as 15 to 24%, or more. In 2008, the recession lowered commercial real estate values in many markets. Along with rising utility costs, both factors have compelled building managers to look into better and innovative ways to drive down, or even, eliminate energy costs resulting in carbon-neutral buildings. This result will lead to raising net operating incomes and property values-the most important tenets of income-producing property.

What is N.Y.C. doing about it? Law 84 mandates that all owners of multifamily buildings over 50,000 s/f must comply annually with energy benchmarking. N.Y.C.'s Energy Benchmarking Deadline is has been extended to May 31. If not, owners are subject to a \$500 fine per building for each quarter they do not benchmark energy usage.

How do I comply with the Law? The Community Preservation Corp. (CPC) can make compliance with NYC's Energy Benchmarking Requirement for multifamily buildings with its program, CPC Energy Benchmarking Plus. CPC also has the expertise available to analyze your property to help you create and finance a plan for retrofitting. CPC's services include: Benchmarking your building, uploading your data, and helping you secure compliance with Local Law 84. CPC's fee is \$500 per building or three buildings for \$1,300. They can also consult outside N.Y.C.

What are its tangible benefits?

- * Lower operating costs and increase in asset value
- * Reduction of waste being sent to landfills
- * Conservation of energy and water
- * Reduction of harmful greenhouse gas emissions
- * Healthier and safer living environment for its tenants and occupants
- * Qualify for tax rebates, zoning allowances and other incentives

What are ways to lower a building's energy costs?

1. Make energy retrofits:

- * No-cost improvements: seal window and door frames, change filters regularly, replace washers and cartridges in leaking faucets, replace light bulbs, review current building operating procedures.
- * Low-cost improvements: Equipment tune-ups, review sequence of operations, perform minor equipment upgrades, install occupancy sensors.
- * High-cost improvements: Window replacement, faucet and toilet replacement, and equipment replacement.

2. Install renewable energy solutions: Significant-cost improvement solar or photovoltaic installation, small wind rooftop turbine installation.

How does the commercial real estate owner accomplish this upgrade or installation?

1. Building energy retrofits: A direct expenditure from the property's capital expense budget, an indirect cash investment from the building owner, allow a commercial refinance or new (senior) debt of the subject property, and allow mezzanine (junior) financing of the subject property 3.

2: Renewable energy installation: Consent to an equipment lease program with the solar or wind power manufacturer, agree to an investment program with the solar/wind power manufacturer and a third-party investor, negotiate a joint venture development agreement with the solar/wind firm and its developer, and sign a power and purchase agreement directly with the utility company for its energy production (PPA).

What are ways to overcome the hurdle costs of energy retrofit or renewable energy installation? Renewable energy equipment can be expensive relative to its economic benefit due to a building's limited rooftop space for the actual energy production and/or what a utility company will pay for its energy production through the PPA. Lowering the overall cost of the upfront investment through rebates and/or tax benefits to the property owner are the most important ways of bridging the financial or investment gap and make such project economically feasible.

The U.S. Dept. of Energy's website is an excellent federal resource that contains the available government and utility rebate programs, incentives and tax credits by each state (energy.gov/savings).

In addition, the Con Edison Co. began in May 2011 to provide financial incentives for energy efficiency, to defer or avoid transmission and distribution capital expenditures. This targeted demand side management program provides financial incentives to demand side management providers, and was approved up to \$25 million a year for four years with the goal of attaining 100 MW's of permanent load reduction. Moreover, the Database of State Incentives for Renewable Energy (DSIRE) is the most comprehensive source of information on incentives and policies that support renewable and energy efficiency in the U.S. (www.dsire.org).

Established in 1995, DSIRE is currently operated by the North Carolina Solar Center with support from the Interstate Renewable Energy Council, Inc. DSIRE is funded by the U.S. Department of Energy.

The importance of sustainability of commercial real estate in today's market cannot be ignored. The knowledgeable real estate financier who knows how to properly structure the financing strategy for owner and comply with Local Law 84 or renewable energy plan is a crucial part of the sustainability of commercial real estate in the future.

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