



What is the cost of becoming green or making green improvements?

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There has been an explosion of discussions and articles written about the benefits of building green buildings or making improvements to existing buildings to make them more Green. Anyone who has looked into building a new green building or making green improvements to an existing building will tell you that the costs can be 15% to 25% higher than the normal costs.

The U.S. Green Building Council (USGBC) is a non-profit organization committed to expanding sustainable building practices. The USGBC created the LEED (Leadership in Energy and Environmental Design) standard. To receive a high rating for a green building you should be prepared to budget at least an extra 20% to your total costs. Over time, many municipalities will enact new commercial building codes that will mandate energy efficiency in the commercial real estate sector, so building owners' costs will continue to climb. Smart developers are positioning themselves ahead of the curve and making investments now, ahead of the upcoming government mandates.

To encourage the continued expansion of green building the federal, state and local municipalities, along with various power suppliers have numerous programs to reduce the total overall cost of becoming green. There are numerous extra deductions, tax credits and rebates that can be obtained to reduce the overall cost of building a green building.

The U.S. Government offers a tax deduction under Internal Revenue Code Section 179D. If your company owns or leases commercial buildings, including residential rental buildings, you may be eligible for a deduction for part or all of the costs associated with the installation or retrofit. In other words, instead of capitalizing and recovering through depreciation over 27.5 years or 39 years, this allows for potential immediate expensing of costs. The maximum deduction is \$1.80 per s/f of building floor area that qualifies under IRC Sec. 179D measured against the reference building. The deduction is allowed for prior tax years, including 2006 and 2007.

In addition The Internal Revenue Service (IRS) has issued guidance that can enable architects and other designers to claim a tax deduction for certain energy-efficient features in government-owned buildings. The guidance relates to the energy-efficient commercial buildings tax deduction, enacted in the Energy Policy Act of 2005, which allows taxpayers to deduct the cost of energy-efficient equipment installed in commercial buildings they own. The law allows the designer of the energy-saving portions of a publicly owned building (such as the building envelope, HVAC system, or lighting) to receive the tax deduction, because government agencies have no tax liability and therefore cannot take advantage of the deduction. A designer may include, for example, an architect, engineer, contractor, environmental consultant, or energy services provider who creates the technical specifications for a new building or an addition to an existing building that incorporates energy-efficient commercial. The deduction will go to the party responsible for creating the

energy-efficient environment, rather than to the public owner who is not the taxpayer.

New York State recently enacted a Green Roof Tax Abatement program. This program establishes a one-year tax abatement for construction of a green roof on a tax class one, two, or four building. The amount of the abatement is \$4.50 per s/f of green roof, limited to the lesser of \$100,000 or the building's tax liability for the year in which the abatement is taken.

The Long Island Power Authority (LIPA) recently amended its electric service tariff to further encourage the use of generating resources by making commercial net metering available to commercial customers. This will allow businesses to take advantage of the opportunity to sell solar power back to LIPA and help reduce operating costs. In addition, LIPA has numerous other incentives and tax rebates that will fund 100% of the cost of energy modeling up to \$50,000 and up to \$100,000 for the cost of commissioning energy related systems. The maximum rebate from LIPA for a LEED green building has been increased to \$500,000.

In an article last year, I discussed NYSEERDA and its subsidized loans to residential and commercial owners for energy-efficient equipment to help reduce the cost of energy. The loan fund program is offered for the purpose of providing an interest rate reduction off a participating lender's loan interest rate for a term of up to 10 years. This program provides yet another incentive to build green.

There are numerous incentives, deductions, credits and rebates available to reduce the overall costs of becoming a green property owner. In the near future, commercial property owners who have LEED Green building in their portfolio will be able to command a higher rent from their prospective tenants as well as meet the new proposed energy codes for commercial building under consideration by NYC, and do something good for the environment. These factors combine to make pursuing a green building strategy a smart business decision.

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