

Improving Energy Efficiency Adds Asset Value



The monumental goal of cutting greenhouse gas emissions over the next two decades to help slow the pace of global warming has been committed to by a number of US industry sectors, including real estate. Efforts by our industry to reduce emissions levels have taken many different forms since the Federal government's 1997 global warming talks in Kyoto, Japan—and they present innumerable economic and environmental challenges.

In 1998, former Energy Secretary Federico Pena invited the nation's commercial real estate leaders to improve the average efficiency of their buildings by 30% over the next 12 years. According to one Federal study, residential and commercial buildings account for nearly 34% of the total energy consumption and related greenhouse gas emissions in the nation.

One way our industry is responding to this challenge is by taking early, voluntary action to help curb greenhouse gases through market-based programs, such as the Federal government's Energy Star Building Label initiative. These efforts are leading to sustainable building designs that incorporate such environmentally friendly technologies as fuel cells, solar panels, smart thermostats and unique air-ventilation systems.

At a recent press conference in New York City, officials from the Environmental Protection Agency and the Department of Energy honored the first 100 commercial buildings throughout the country with the government's highest symbol of energy excellence: an Energy Star. This designation is rapidly becoming commercial real estate's ecological equivalent of an Oscar award.

To qualify for "star" status, buildings must meet strict performance criteria that certify them in the top 25% of all comparable buildings for energy efficiency. They must also meet minimum standards for healthy indoor-air quality. Some of the 100 buildings were engineered and constructed with such efficiency in mind, while others earned the ranking through renovations that incorporate improved lighting and HVAC equipment. The properties range from state-of-the-art office towers to historic buildings erected during the Depression.

The government extended the Energy Star designation to commercial real estate in 1998 as an incentive for our industry to voluntarily reduce demand for electrical energy use and help lower greenhouse gas emissions. The industry's response to the program over the past two years brings overall commercial space covered by the initiatives to more than 20 billion sf.

Among the companies to have earned an Energy Star for one or more of their buildings are Equity Office Properties Trust, Arden Realty Inc., the Durst Organization, Mack-Cali Realty and Prentiss Property Services.

Tim Callahan, president and chief executive officer of Equity Office Properties Trust, says that energy efficiency has become an important benchmark for his company's 293-building portfolio, which comprises nearly 77 million sf in 23 states and Washington, DC.

Participation in the Energy Star program for Arden Realty has had measurable, bottom-line benefits. To date, the company has saved \$2.9 million in annual energy operating costs for 38 buildings that earned the designation and \$4.8 million across its entire portfolio.

Until now, the ability to measure the return on investment gained by using such energy-saving designs and technologies has been difficult, if not impossible. To help property owners compare the energy efficiency of their

The real estate industry is curbing greenhouse gases through programs such as the Energy Star Building Label initiative.

buildings and value the potential return on their investment for energy upgrades, EPA and DOE developed a benchmarking calculator as well as promising design- and financial-modeling tools. Federal officials estimate that every dollar invested in boosting a building's energy efficiency adds as much as \$3 to its asset value. Over time, agency officials believe these tools will prove helpful to owners and investors in valuing and differentiating building portfolios and asset-management strategies.

To broaden the industry's participation in the Energy Star program and other voluntary Federal energy efficiency initiatives, we urge Congress and the Clinton Administration to support the use of tax credits as a cost-effective means of encouraging the use of energy-saving technologies in new construction and building renovations. ■

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