

Navigating the Real Estate Industry's Hidden Energy Efficiency Obstacles

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Energy Efficiency and Real Estate

Split incentive: when one party pays for the capital and another pays the utility bill

Landlord pays for *capital*

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graph TD; A[Landlord pays for capital] --> B[Tenant gets energy bill savings]; B --> C[No incentive for landlord to invest];
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Tenant gets *energy bill savings*

No *incentive* for landlord to invest

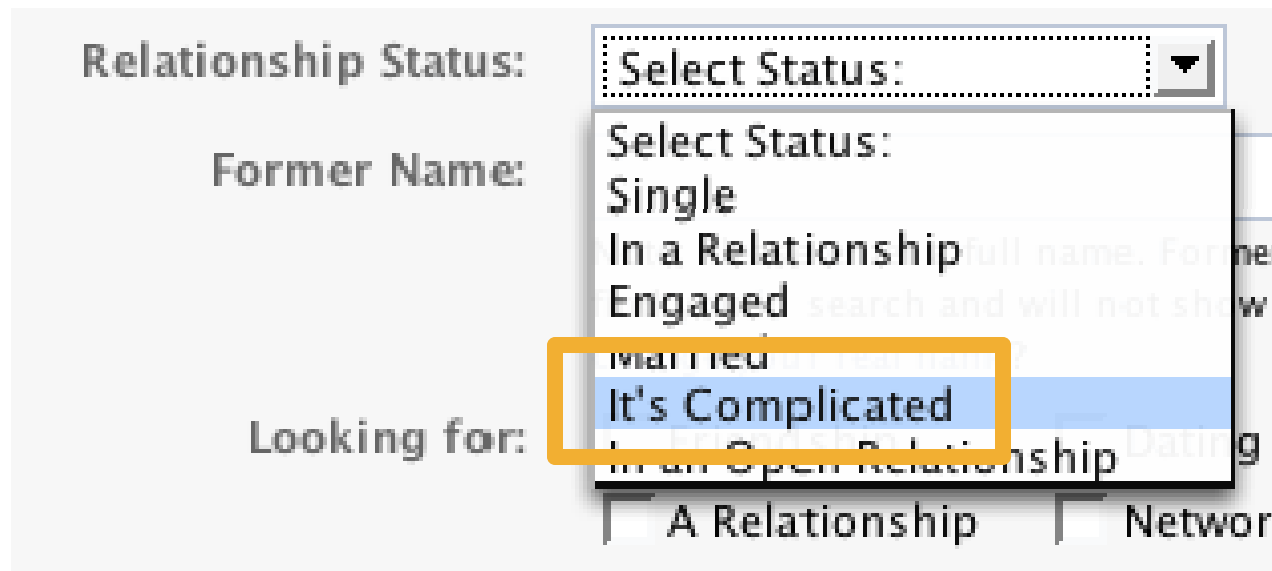
But in reality...

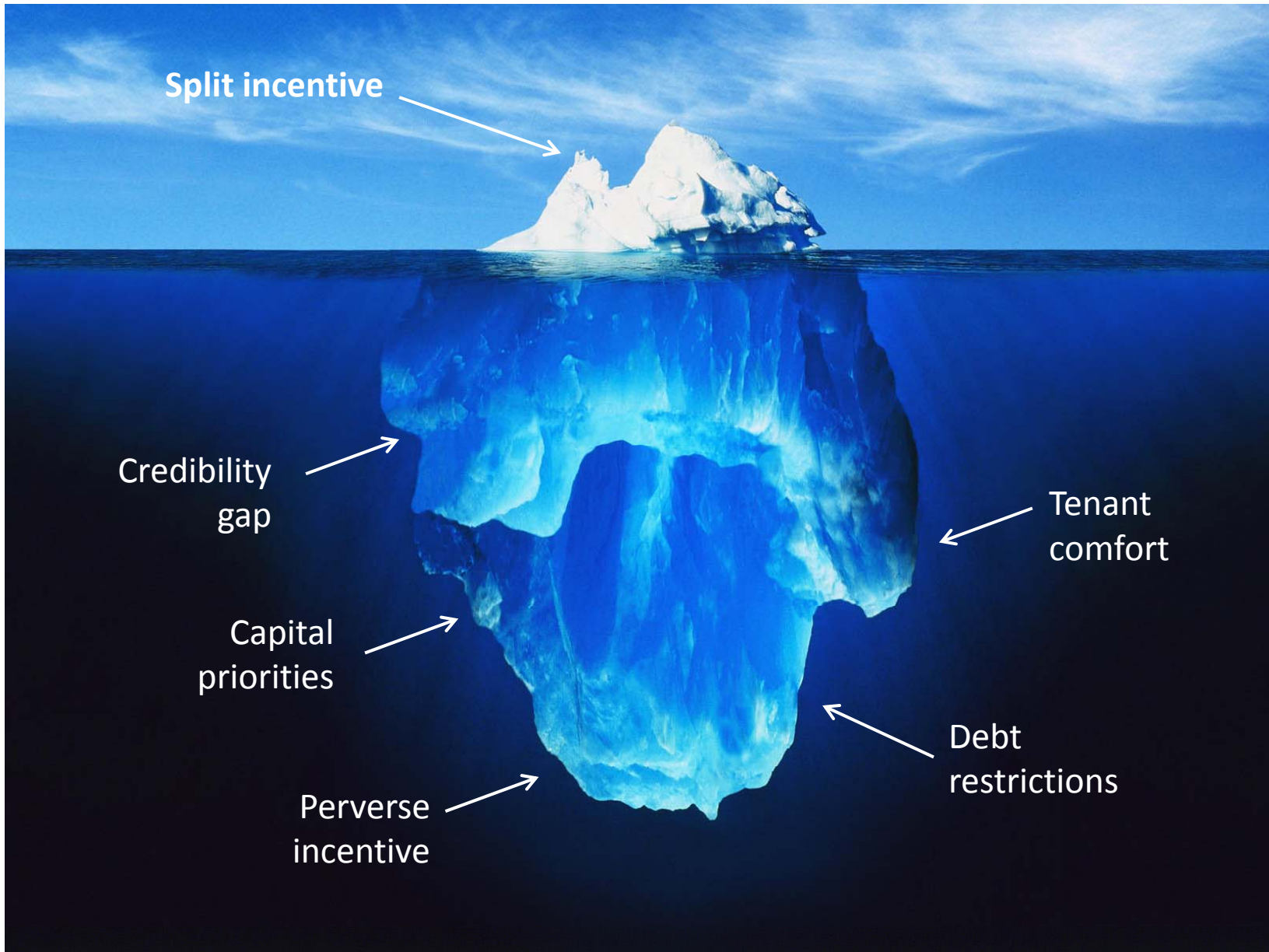
Relationship Status:

Former Name:

Looking for:

A Relationship Network





Credibility Gap

- Developer gets more money for a building with a higher credible revenue stream
 - Higher rent from upgrading lobby = **credible**
 - Lower costs from energy efficiency = **not credible**

Solutions:

- Give developers financial incentives for efficiency
- Improve credibility of efficiency savings

Tenant Comfort

- The manager's most important job is to keep the occupant happy
- Most occupant complaints relate to comfort

Solutions:

- Building commissioning
- "Green Lease"

Perverse Incentive

- Management companies get a fee based on a percentage of the building's revenue

	Revenue with Efficiency	Revenue without Efficiency
Rent	\$1,000,000	\$1,000,000
OpEx	<u>100,000</u>	<u>150,000</u>
Total	\$1,100,000	\$1,150,000
Management Fee	\$11,000	\$11,500

Solution: • Retrocommissioning

Capital Priorities

- Energy efficiency projects must compete against a building's (or portfolio's) other capital needs
 - Emergency repairs
 - Scheduled maintenance
 - Cosmetic upgrades

Solutions:

- Offer energy efficiency financing
- Target buildings at sale or “tenant roll”

Debt Restrictions

- Energy efficiency financing can trigger default under an existing mortgage
 - Seniority
 - Debt coverage
 - Total debt load

Solutions:

- Tariff-based on-bill financing options
- Service agreements

Split Incentive

- A lease is a negotiated document
- None of the five standard lease types addresses all the potential pitfalls

Solution:

- **“Green Lease”**
 - Allow owner to allocate capital costs to the occupant
 - Require ongoing quality control of systems and equipment
 - Mandate information exchange between landlord and tenant

Getting to Yes

Most buildings face more than one of these obstacles

Integrate approaches

Track building life cycle

Engage the influencers

For More Information

- See handout: “Why Energy Efficiency and Buildings Don’t Mix”*
- Visit *High Efficiency* column at <http://www.EnergyTrendsInsider.com>
- E-mail me at allison.asplin@cadmusgroup.com

*Also online at <http://www.energytrendsinsider.com/2012/09/20/why-energy-efficiency-and-buildings-dont-mix/>



Save the Dates

Sept. 30-Oct. 2, 2013

AESP's Fall Conference
Seattle, WA

Jan. 27-30, 2014

AESP's National Conference
San Diego, CA

May 12-14, 2014

AESP's Spring Conference
Baltimore, MD

For more information - www.aesp.org

