

Go Green: Energy-Saving Technology and Practices Benefit Building Owners and Tenants Too

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Times are tight. But there's still a way to get help with new building construction, renovation, or operating expenses. How's that? Go green.

Green building design has arrived—and none too soon. Buildings are high users of energy. In fact, commercial facilities consume about 60% of the nation's electricity. With direct energy costs escalating and volatile (not to mention those indirect costs associated with carbon emissions), the impetus to increase efficiency and conserve resources has never been more urgent.

New environmentally friendly technology used in the design and construction of facilities may cost more initially. But, thanks to economic incentives and lower operating expenses, those costs can be recovered—translating into immediate and long-term economic benefits for owners and tenants alike.

Some of those benefits come in the form of renewable energy credits, grants, and tax credits available to those who renovate an existing building to make it more energy efficient, or apply green building principles to a new real estate project. The Leadership in Energy and Environmental Design (LEED) standards continue to grow in acceptance, which will provide further certainty and uniformity to the process of qualifying for incentives.

There's even a way for environmentally minded landlords of large, multi-tenant buildings to earn a fair return on their initial capital outlay. It works this way: Existing leases can be renegotiated to raise the rent by an amount that compensates for upgrading lighting, heating, and cooling systems, in exchange for a tenant's reduced utility bills.

For example, lighting typically consumes 35% – 40% of electricity in a commercial building. A 40% reduction in the energy cost of lighting could mean a 14% reduction in a building's total energy costs. If a landlord commits to a capital expenditure that would generate those savings, tenants agree to increase their rent by an amount that's less than the cost savings, but enough to repay the landlord's investment over time.

The risk to a tenant that the energy savings is less than the increased rent can be mitigated by establishing the increased rent as a percentage of the actual reduction in utility costs. In some cases, it's possible for a landlord to assess tenants for capital improvements that would benefit all building occupants. Assuming the lease language permits such assessments, they may be amortized over several years.

The point is this: Green is the new way to go—for building owners, tenants, and the lenders who finance real Estate projects. In the not too distant future, compliance with energy efficiency standards will be the norm. For the time being, green building design is creating plenty of significant cost-saving opportunities.

Call the author Mark J. Bennett at 248.267.3269 or Stephen G. Palms, 734.668.7118, if you'd like to take advantage of these opportunities.