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New Law Ranks Commercial Buildings by Efficiency

By Brian K. Miller

ANALYSIS

SAN FRANCISCO-A new law on the books means commercial building owners in California are about to see how they stack up against their peers in terms of energy consumption—and so, too, are the buildings' prospective buyers, financiers and lessees. For owners who have been proactive, the information could push a lot of business their way as businesses look for energy efficient buildings that will help them meet their own sustainability goals. For owners who have not been proactive the imminent list could prompt improvements or result in lower occupancies and lower lease rates.

"I can't underscore enough how forward thinking this is, and how disruptive a force it is actually going to be, within the commercial real estate market in California," Diane Vrkic, COO of Global Energy and Sustainability Services for Jones Lang LaSalle, tells GlobeSt.com. "There can't be a better way to go about this than by having a consistent, transparent way to label buildings on performance."

Under AB 1103, beginning this January, electric and gas utilities are required to maintain records of the energy consumption data of all nonresidential buildings to which they provide service and, upon request of an owner, upload those records to a secure online interactive energy management tool maintained by the US Environmental Protection Agency that tracks and assess energy and water consumption. The Energy Star Portfolio Manager allows users to identify under-performing buildings, verify efficiency improvements, and receive EPA recognition for superior energy performance.

One year from January, anyone looking to buy, finance or lease an entire building will be entitled to obtain the building's Energy Star Portfolio Manager benchmarking data and ratings. The Energy Star program rates buildings on a scale from 1 to 100 against other buildings within its class. Buildings within the top quartile will be eligible to be recognized as an EPA Energy Star Building and can use the "Energy Star Label" to communicate its energy efficiency to tenants, lenders, and other stakeholders.

"Car dealers are required to disclose a car's fuel efficiency rating; now in California, sellers and lessees of buildings will be required to disclose the building's energy efficiency rating," environmental engineer Joe Derhake tells GlobeSt.com. Derhake, a principal with El Segundo, CA-based Partner Engineering and Science Inc. says the state's benchmarking process will require the most recent 12 month's worth of utility data provided by the various utility companies, as well as building specific information from the owner such as weekly operating hours, number of personal computers, and the percentage of gross floor area that is either air conditioned or heated.

"Tenants and buyers are continuing to seek green office environments, and lenders have made large public commitments to provide green lending, but have struggled to find objective underwriting standards to use to determine which assets are in fact green," Derhake says. "The data ... will provide lenders, buyers, and tenants with a clear and objective tool to measure the energy efficiency of buildings."

Just as importantly, it will give building owners a sense of where they stand against the competition. Owners that have been focused on energy efficiency have already made improvements are looking forward to the benchmark, while owners that have been focused on other things may decide to take action sooner rather than later.

"I think it's an extraordinary move to actually be giving the market what it's looking for, which is transparency," Vrkic says. "Once January 2010 rolls around, I think there will be a scramble by building owners and managers that haven't created sustainability or energy efficiency strategies for their assets."

Kandy Kidd, a certified LEED professional with the tenant-rep firm Studley who recently had its Silicon Valley office certified as a "Green Business," says the new law will place increasing pressure on the owners of brown buildings to perform green retrofits in order to attract and retain quality tenants. "What remains to be seen is the degree to which landlords attempt to shift the burden of retrofit costs to the tenant," she said. "In a perfect world, landlords and tenants would work together in meeting regulatory mandates since both parties will benefit greatly from the outcome."

Ken Cleaveland, the director of government and public affairs for BOMA San Francisco, tells GlobeSt.com it did not lobby against the legislation but did work to make sure the information wasn't available to just anyone. "We weren't going to fight a good education program; building owners need to know what their energy profile is so they can save not only natural resources but also money," he said. "But we also wanted to control to some extent how the information is released, so it will have to be a legitimate, professional inquiry."

Mike Hargrove, a lobbyist for the California Business Properties Association, which represents BOMA California and several of the large commercial real estate professional organizations, says the legislation did not make the information available to the general public because the legislation was "not meant to be a public shaming bill" but rather was meant to "assure that property owners understand the benchmarking of their own building and look at the deficiencies and make improvements."

While the new law does not require a building owner to hand over its ranking to the buyer, financier or lessee of anything less than an entire building, Cleaveland doesn't expect owners to be too resistant to requests. "In the commercial real estate world, tenants rule," he says. "So if you've got a good tenant and they want to know you aren't required to tell them but it would be foolish not to; a bird in hand is worth more than two in the bush these days."

So will the more energy efficient buildings-the ones at the top of the list--be able to charge more for their space? Vrkic believes it's more likely there could be a discount for less efficient buildings than a premium for the most efficient buildings.

"There have three or four major studies done on LEED-certified buildings and the premium associated with that and the premiums vary significantly," she says. "Recent research has said there will not necessarily be a price premium but it will likely make less efficient buildings lose competitiveness in the marketplace. In this economic environment I think the penalty will show up in terms of lease-up rates and the ability to keep tenants."

The emerging story within the story is whether the law can be implemented fairly and completely. "At this point getting indications that there won't be even application throughout state because of all the different investor-owned and municipal utilities," Hargrove says. "Can they even do [what the law is requiring] and who pays for the cost?"

A spokesperson from PG&E declined comment other than to say the company is taking a "neutral" position on the issue.

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