

AIR CRE TOWN HALL

INCREASING PROPERTY VALUE THROUGH ENERGY STAR® CERTIFICATION



TOPICS

Introduction

The Business Case for Efficiency

Seeing Efficiency: Internal Drivers

Seeing Efficiency: External Drivers

Energy Disclosure Laws

Being Efficiency: Actionable Steps

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Q&A

SPEAKERS



Marika Erdely

MBA, CEA, LEED, AP BD+C,
fitwell Ambassador

Founder & CEO

Green EconoME

(818) 681-5750

marika@greeneconome.com



Craig Haglund MBA

*Program Manager – CRE & Multifamily
ENERGY STAR Commercial & Industrial Branch*

U.S. EPA

202-343-9181

haglund.craig@epa.gov



Introduction

Why are we talking about Energy Efficiency?

LA's Green New Deal (Buildings)

- Reduce building energy use per sq. ft. for all building types: 22% by 2025; 34% by 2035; and 44% by 2050
- All new buildings will be net zero carbon by 2030; and 100% of buildings will be net zero carbon by 2050

CA SB 350

- Reduce GHG to 80% below 1990 levels by 2050

Strategies

What are the industry drivers?

Local Climate Action Plans

- Energy disclosure and performance reporting

Title 24 and Expanding Policy

- Building decarbonization
- Electrification
- Self-generation and resilience: solar + storage

Infrastructure

- Clean power & updated grid



BUSINESS CASE FOR EFFICIENCY

What's in it for me?
Why should I care?

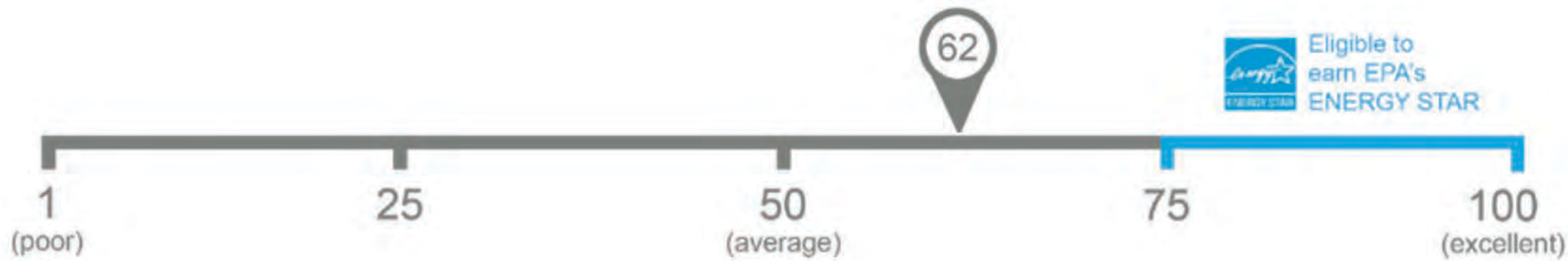


ENERGY STAR® For Buildings & Plants

Voluntary EPA program that delivers environmental benefits and financial value through superior energy efficiency.



The 1-100 ENERGY STAR Score



One simple number understood by ALL stakeholders.

ENERGY STAR® Progress & Goals Report

52

ENERGY STAR®
Score¹

Property Address

Primary Property Type: Office
Gross Floor Area (ft²): 110,000
Built: 1984

Property Address:

For Year Ending: December 31, 2020
Date Generated: October 11, 2021

Property ID:
Los Angeles Building ID:

1. The ENERGY STAR score is a 1-100 assessment of a building's energy efficiency as compared with similar buildings nationwide, adjusting for climate and business activity.

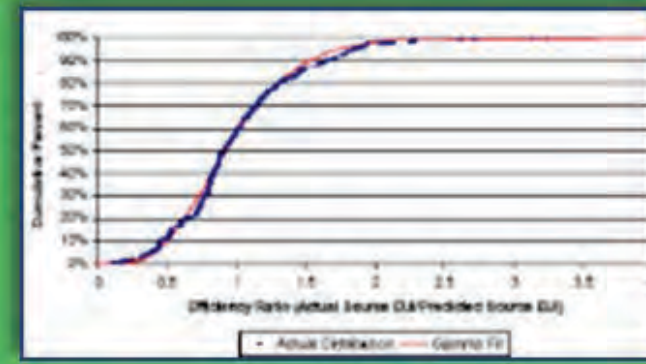
Performance Comparison

	Progress	Performance Goals				
	Baseline (Ending Date 12/31/2016)	(Ending Date 12/31/2020)	% Change	Property's Target	National Median	ENERGY STAR Score of 75
ENERGY STAR Score	40	52	-30	57	50	75
Energy						
Site EUI (kBtu/ft²)	113.3	104.3	-7.9	96.3	107.3	76.7
Source EUI (kBtu/ft²)	303.5	273.9	-9.7	257.9	281.9	201.5
Energy Cost (\$)	N/A	N/A	N/A	N/A	N/A	N/A
Energy Cost Intensity (¢)	N/A	N/A	N/A	N/A	N/A	N/A
Greenhouse Gas Emissions						
Total GHG Emissions (Metric Tons CO2e)	747.7	685.7	-8.3	635.5	705.7	504.5
Total GHG Emissions Intensity (kgCO2e/ft²)	6.8	6.2	-8.3	5.8	6.4	4.6
Water						
All Water Use (kgal)	2,639.1	1,899.3	-28	-	-	-
Indoor Water Use (kgal)	N/A	N/A	N/A	-	-	-
Indoor Water Use Intensity (gal/ft²)	N/A	N/A	N/A	-	-	-
Total Water Cost (\$)	N/A	N/A	N/A	-	-	-

*Setting and managing water targets is not yet available in Portfolio Manager.

Developing a 1-100 ENERGY STAR Score

Nationally
representative
survey

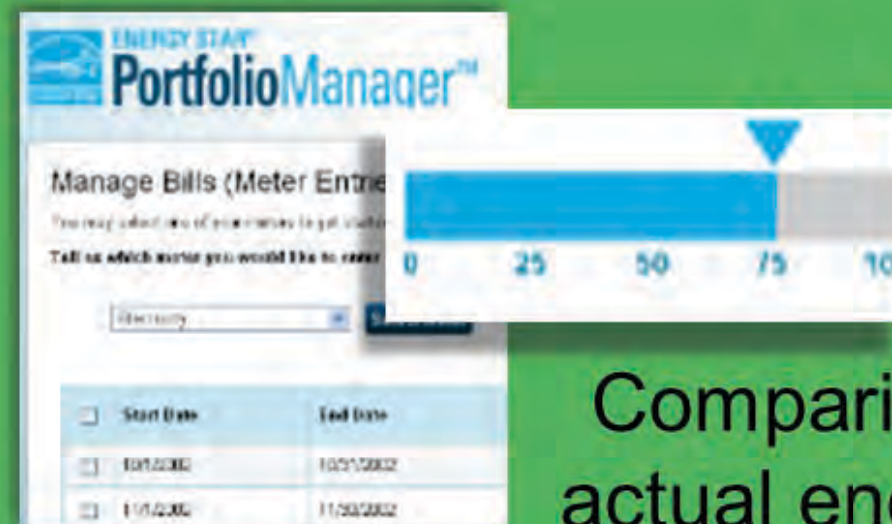


Data analysis

Descriptive Statistics for Variables in Final Regression Model				
Variable	Full Name	Mean	Minimum	Maximum
SrcEUI	Source Energy per Square Foot	198.4	19.62	1133
LNSqFt	Natural Log of Square foot	9.535	8.517	13.82
PCDen	Number of Computers per 1000 ft2	2.231	0.0273	11.11
LNWkHrs	Natural Log of Weekly Operating Hours	3.972	3.611	5.124
LNWkDen	Natural Log of Number of Workers per 1000 ft2	0.5616	-3.882	2.651
HDDxPH	Heating Degree Days x Percent Heated	4411	0.0000	9277
CDDxPC	Cooling Degree Days x Percent Cooled	1157	0.0000	5204

Note:
- Statistics are computed over the filtered data set (n=498 observations).
- Values are weighted by the CBEC's variable ADJWTS.
- The mean values are used to center variables for the regression.

Statistical modeling



Comparison between
actual energy data and
the modeled estimate



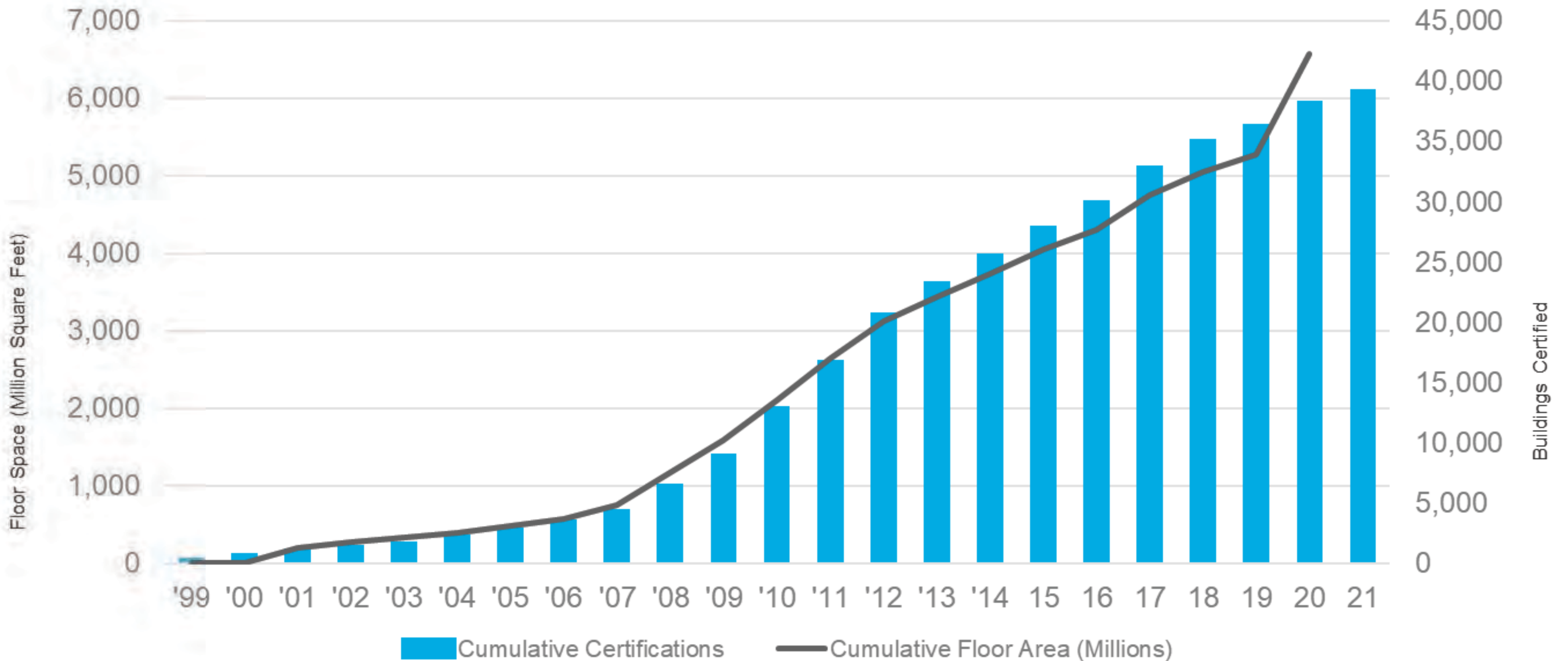


ENERGY STAR Certified Buildings

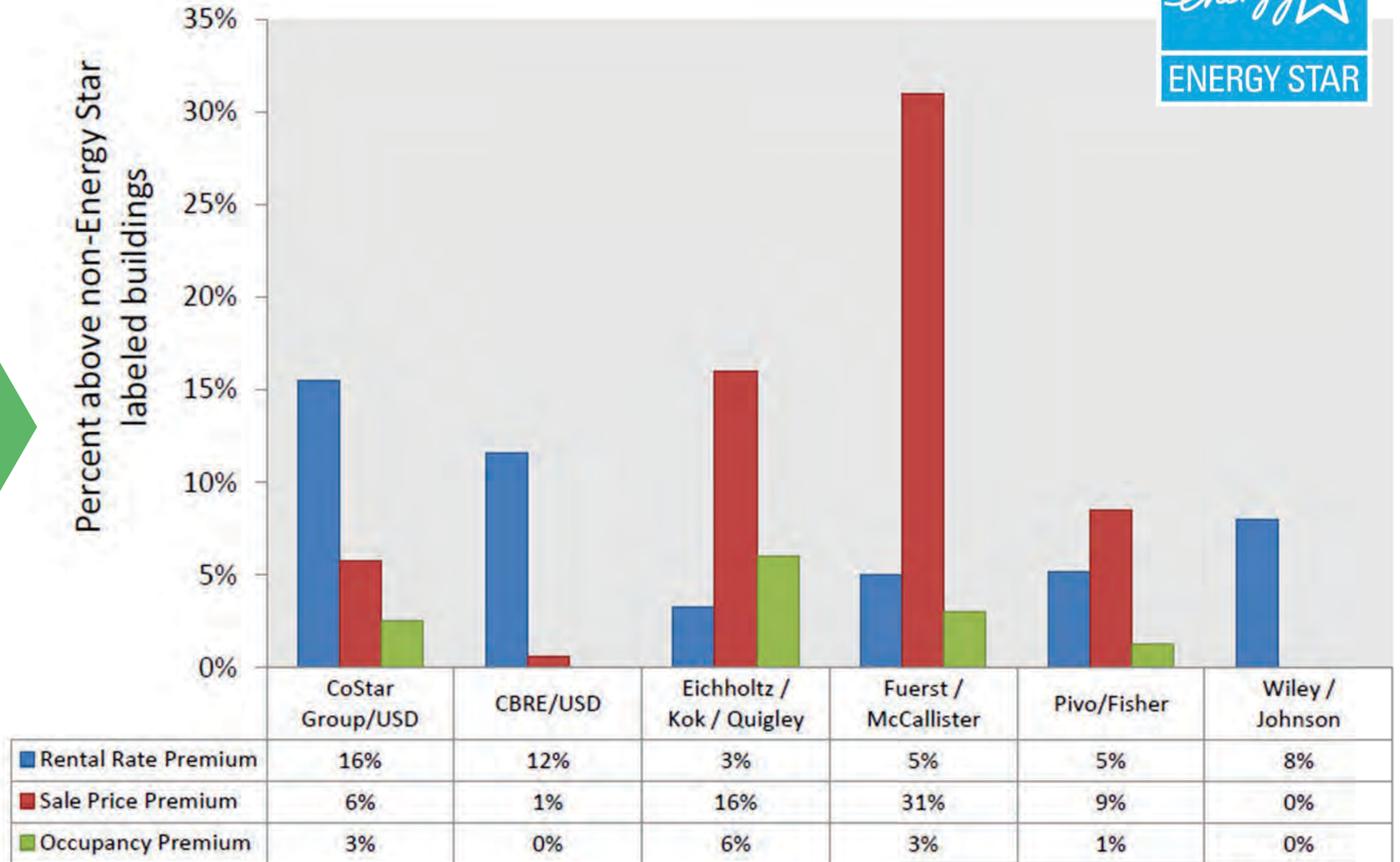
- More efficient than 75% of similar buildings
- Use 35% less energy (on average)
- Cause 35% fewer greenhouse gas emissions (on average)
- Meet City of LA's EBEWE Phase II A/RCx Exemptions



ENERGY STAR Certified Buildings



The Market Value of ENERGY STAR Certified Buildings



Source: [Benchmarking and Disclosure: Lessons from Leading Cities](#), based on data from the [Institute for Market Transformation](#)



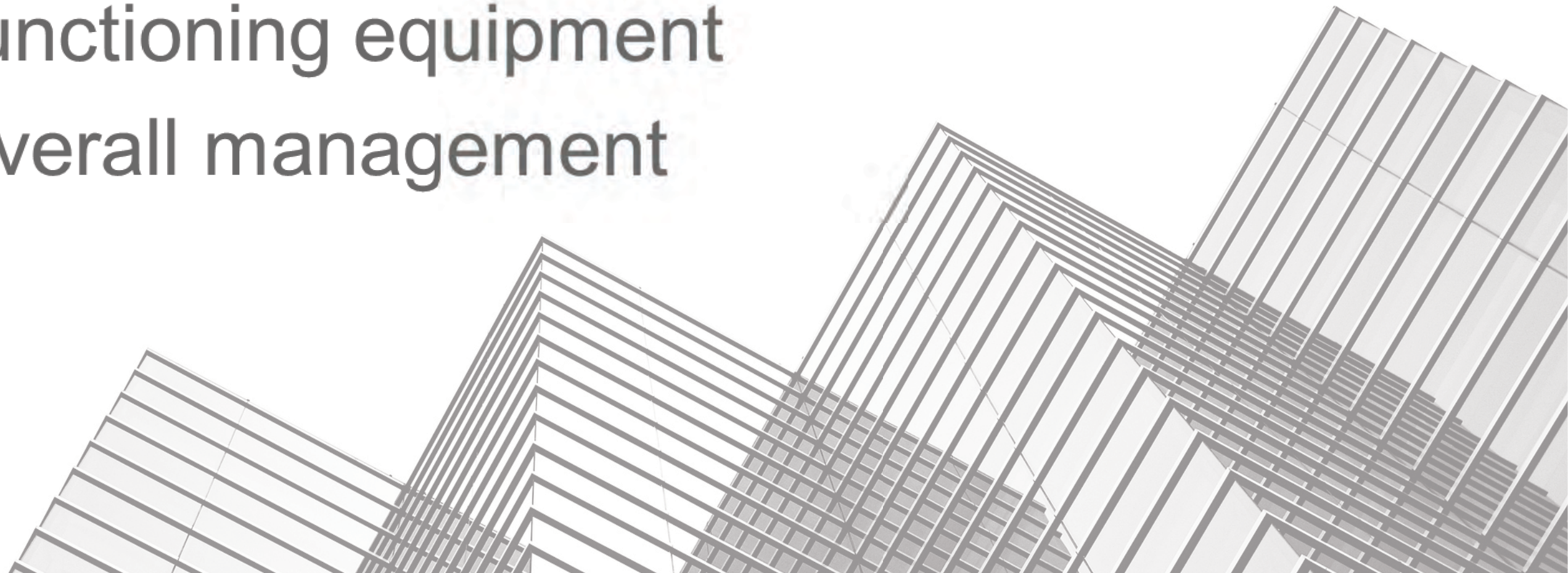
SEEING EFFICIENCY

INTERNAL DRIVERS

Internal Drivers



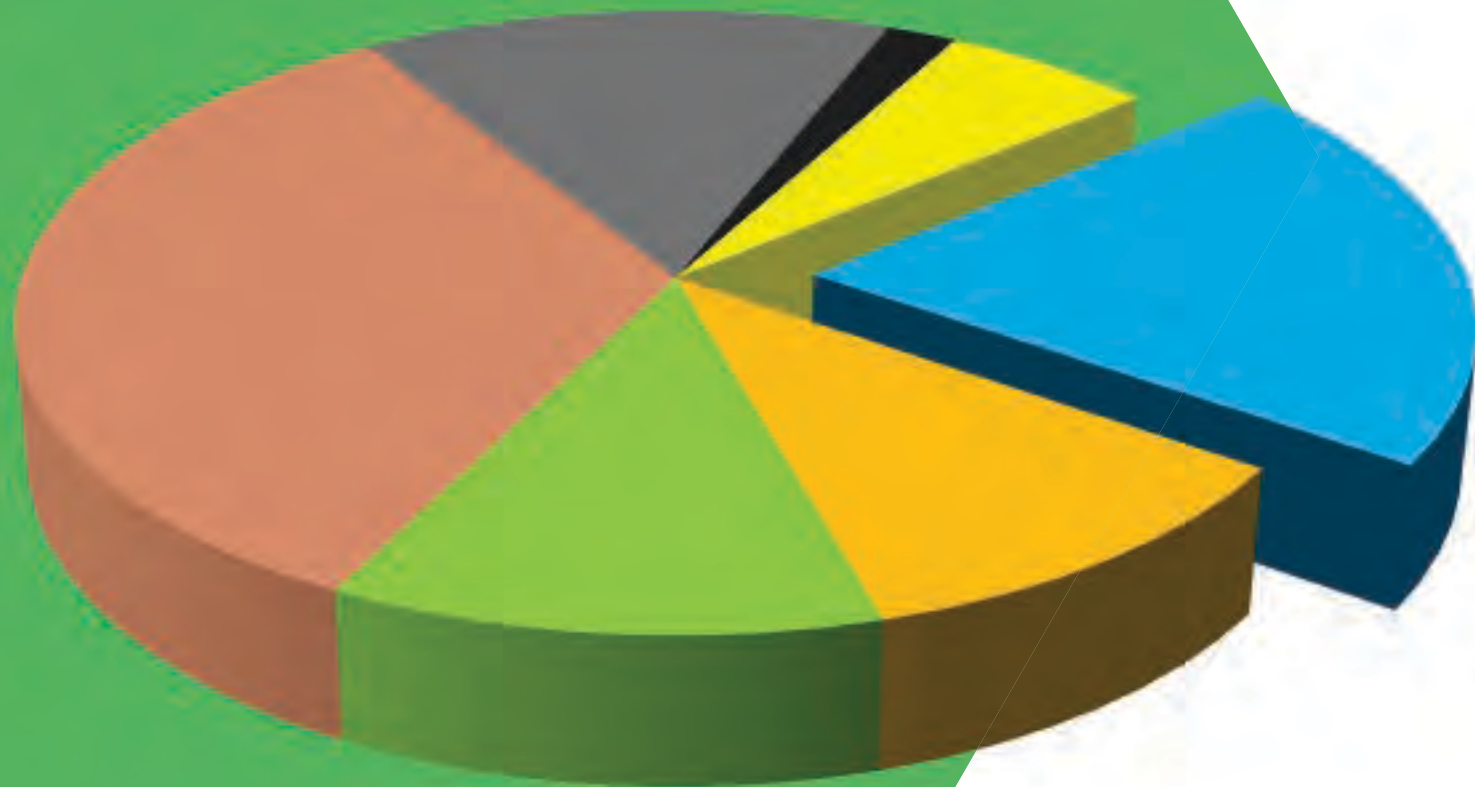
- Reduced operating expenses
- Lower risk of operating expense escalations
- Proxy for better functioning equipment
- Proxy for better overall management



Focus on Costs



Total Expense Ratios



- Administrative, 11%
- Cleaning, 12%
- Fixed Expenses, 34%
- Repairs/Maintenance, 15%
- Roads/Grounds, 2%
- Security, 6%
- Utilities, 21%



Energy Efficiency and Sustainability Are Becoming Expected Practices

- Sustainability is increasingly being seen as an indicator of corporate values and responsibility.
- Corporate boards and investors are requiring companies to apply environmental, social, and governance (ESG) principles to their investments and operations.



Partner Examples



Boston Properties

- Requires all properties to set an ENERGY STAR Score target of 75
- Set a goal to have >80% of all properties ENERGY STAR Certified



MetLife, LaSalle Investment Management

- Integrated the ENERGY STAR Score and ENERGY STAR Certification into their due diligence process when acquiring a property



SEEING EFFICIENCY EXTERNAL DRIVERS





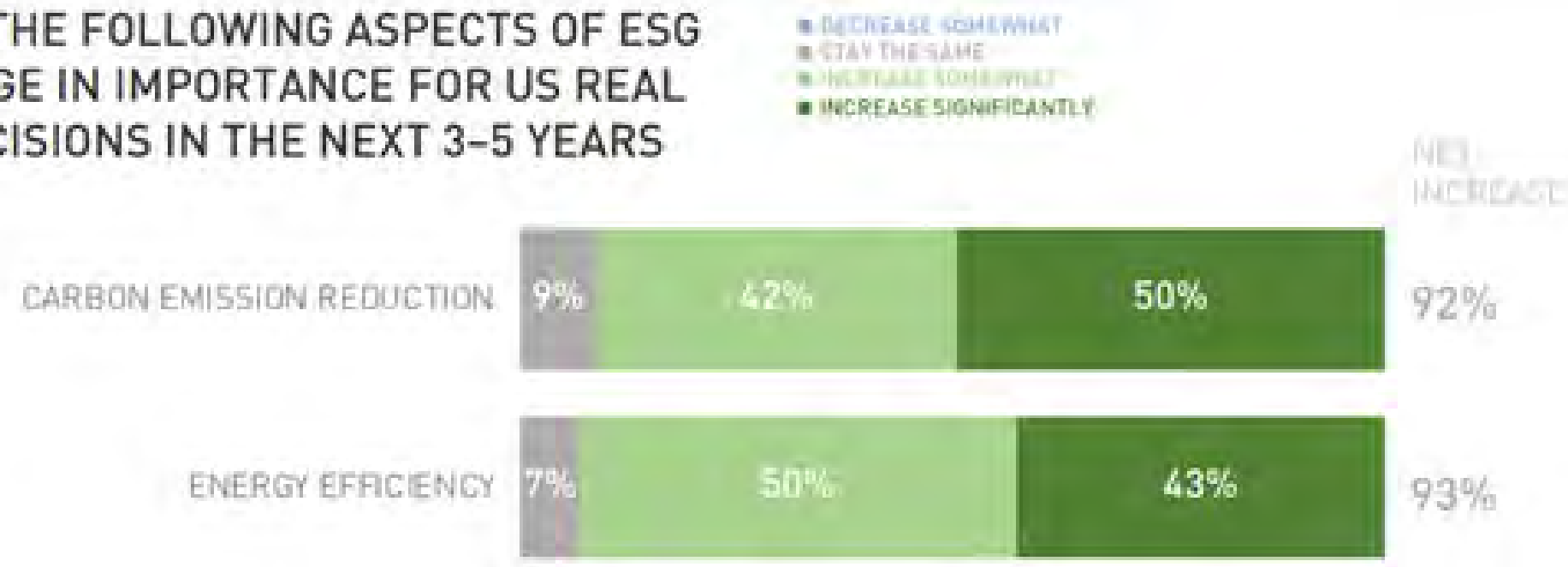
External Drivers

- Expanding State and Local Ordinances
- Investor Demand
- Financial Incentives
- Tenant Demand



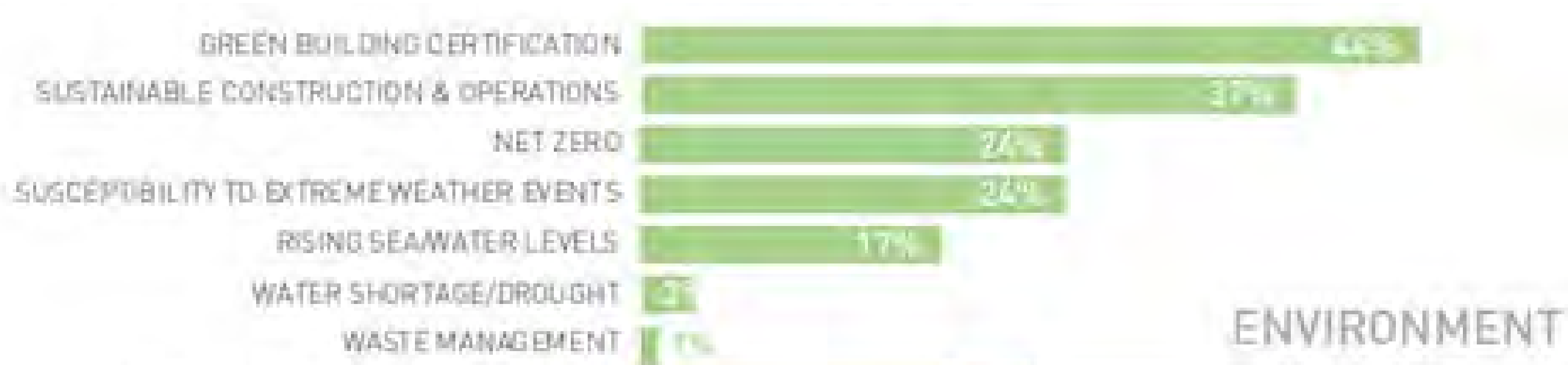
Investors & Sustainability

RATE HOW THE FOLLOWING ASPECTS OF ESG WILL CHANGE IN IMPORTANCE FOR US REAL ESTATE DECISIONS IN THE NEXT 3-5 YEARS



- Investors see emissions reduction and energy efficiency as core focus
- Investors focus on certifications

Ranked Importance of ESG Criteria



Reporting Frameworks



G R E S B
★ ★ ★ ★ ★ 2021



 **PRI** | Principles for Responsible Investment



Financial Incentives

- **Lending institutions** like Fannie Mae and Freddie Mac offer Green Loan Programs which include a host of benefits for borrows that have a green certification, including preferential pricing and lower interest rates.
- **Incentive programs** - Many utilities offer discounted or leveraged energy efficiency upgrades.
- **Section 179D** Commercial Buildings Energy Efficiency Tax Deduction (\$1.80 per sq.ft.)
- **CARES Act, QIP New!** Another Commerical Tax Deduction
- **Alternative compliance** pathways or exemptions for local benchmarking ordinances.



Tenant Demand



- **63%** of Fortune 100 companies have set one or more clean energy targets. Nearly **50%** of Fortune 500 companies have at least one climate or clean energy target.
- When choosing a company to work for, more than **70%** of people surveyed are more likely to work for a company that has a strong green footprint. Nearly **40%** of Millennials have accepted one job offer over another because that company was sustainable. (Swytch survey, 2019)

Sustainability Is Key Feature as Tenants Look to Owners for Greener Buildings

BY TURNTIDE NOVEMBER 29, 2021 7:00 AM

REPRINTS





Landlord/Tenant Collaboration

- **DOE Green Lease Leaders initiative**
- **ULI Tenant Energy Optimization Program**
- **ENERGY STAR Tenant Space Recognition**
 - **RMR Group** established requirements that all new tenants be sub metered
 - **Empire State Realty Trust** integrated the ENERGY STAR Tenant Space framework into all lease negotiations
 - Several other real estate firms have lease provisions that integrate energy efficiency and cost sharing.



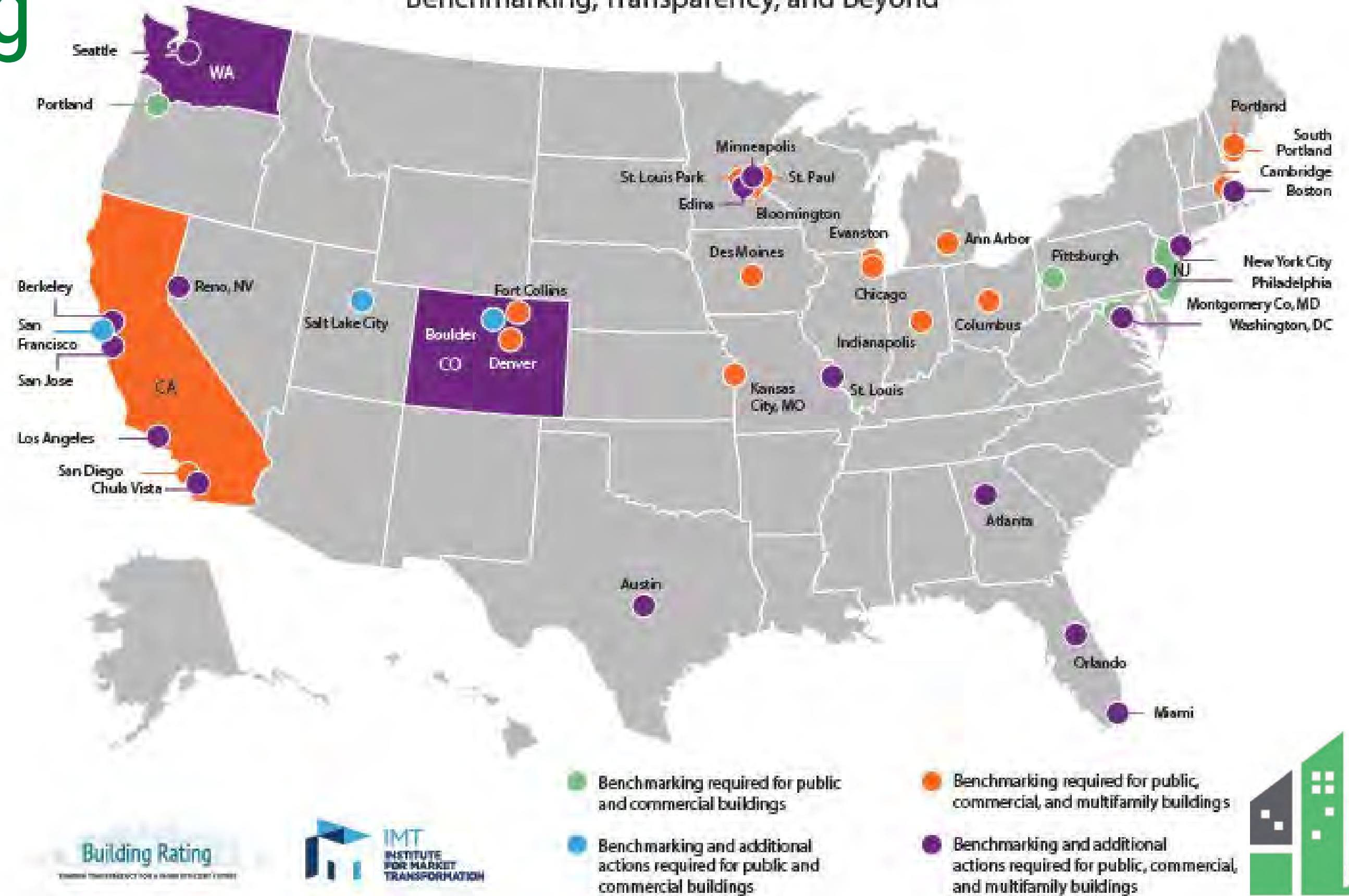


ENERGY DISCLOSURE LAWS



Benchmarking Laws

U.S. City, County, and State Policies for Existing Buildings: Benchmarking, Transparency, and Beyond



Spotlight: California Laws



	LOS ANGELES EBEWE	CALIFORNIA AB 802
ENFORCING PARTY	City of Los Angeles (LADBS)	State of California (CEC)
PROPERTY SIZE	≥ 20,000 sq. ft.	≥ 50,000 sq. ft.
PROPERTY TYPE	Commercial, Multifamily	Commercial, Multifamily (≥ 17 meters)
BENCHMARKING DATA	Energy & Water Consumption	Energy Consumption
DEADLINE	Annually by June1st	Annually by June1st
PENALTY	\$202/year	\$500-\$2000/category/day
EXEMPTIONS	Please inquire	Please inquire
PERFORMANCE REQUIREMENT	Yes, Phase II is due every 5 years	No



BEING EFFICIENCY ACTIONABLE STEPS

Actionable Steps



Benchmark your buildings – set baseline

Comply with local/state energy laws



Identify energy saving goals & opportunities

Audit > retrofit/RCx > decarbonization



Utilize available financing, and incentives

PACE, utility incentives, OBF, tax deductions

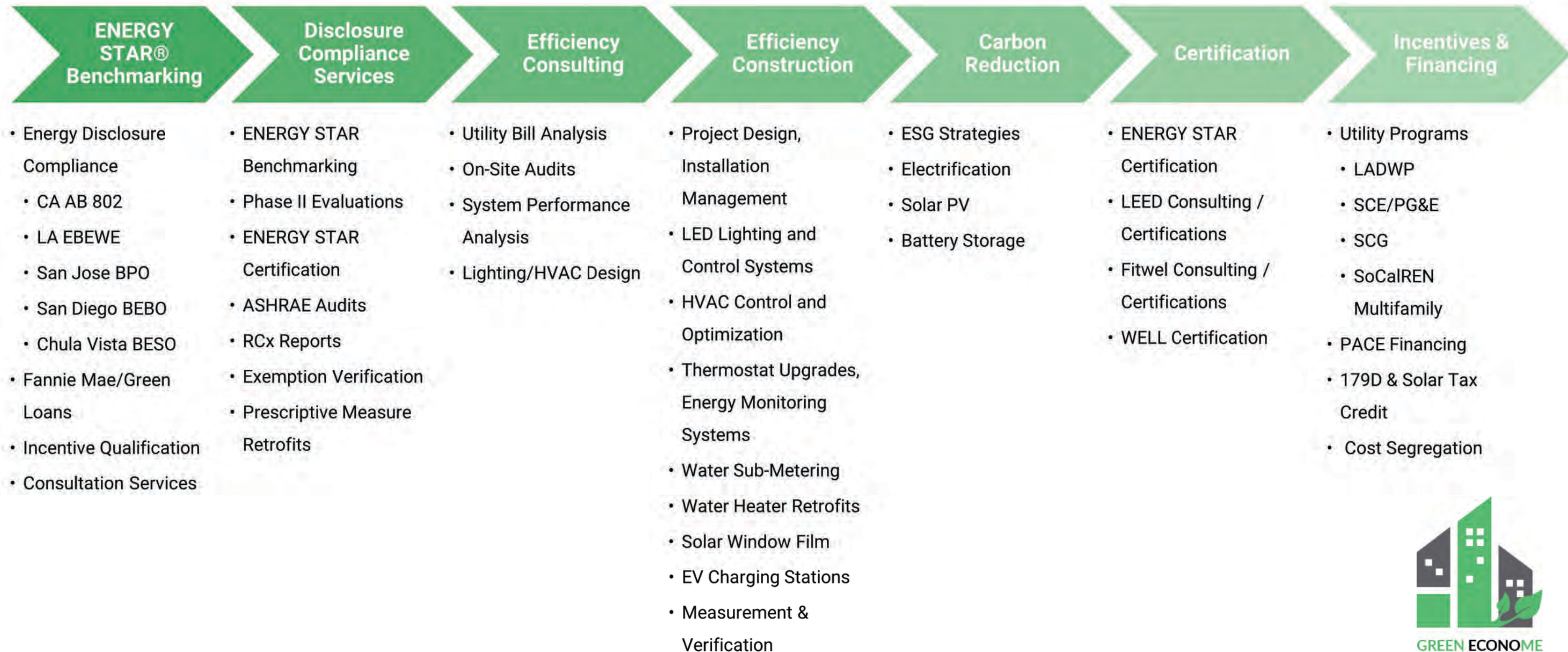


Measure & Certify!

Monitor results, gain ENERGY STAR Certification



Green EconoME Services



Key Take Aways

1. Energy efficiency and sustainability are becoming expected practices.
2. Energy efficient buildings offer lower utility costs to tenants, and lower operational costs to owners.
3. ENERGY STAR Certification holds market value and helps ease the burden of external drivers.

