



MARKET INNOVATION IN FINANCING ENERGY-EFFICIENT RETROFITS OF COMMERCIAL REAL ESTATE IS EXPLORED IN NEW ULI REPORT, *NEW TOOLS. NEW RULES.*

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WASHINGTON (October 12, 2010) -- Retrofitting the nation's existing commercial building stock is moving to the forefront of efforts to reduce carbon emissions in the U.S., and is broadly acknowledged as one of the least expensive ways to mitigate climate change, according to *New Tools. New Rules.*, a new report from the Urban Land Institute (ULI).

New Tools. New Rules. examines how real estate investors are looking at energy efficiency in existing commercial buildings, in light of depressed market conditions, tighter credit and new building regulations. The report was prepared as part of ULI's Climate Change, Land Use and Energy (CLUE) initiative, which explores the strategic role of land use decisions in reducing energy consumption and mitigating climate change.

"Energy retrofits of existing buildings are creating real estate value, producing jobs and reducing greenhouse gas emissions," said ULI CEO Patrick Phillips. "The commercial real estate community is demonstrating great leadership in these activities, helping to pave the way into the new clean energy economy. Utilities, public officials and policy makers need to take notice of the concentrated market potential of commercial real estate and the untapped professional capacity to unleash it on the existing building stock."

According to the report, the sheer size of the commercial real estate sector's carbon footprint illustrates the potential of energy-efficiency measures to make a dramatic impact on reducing emissions. The nation's approximately five million commercial buildings are responsible for 18 percent of total annual energy consumption in the U.S.; moreover, only seven percent of those buildings represent half of the overall floor area of commercial buildings. The market potential for commercial retrofits is projected to total \$190 billion over the next ten years.

Investing in energy efficiency in real estate – an emerging practice with great market potential - requires new business practices and government incentives to overcome investment barriers. "Recent efforts to catalyze investments in energy efficiency in buildings have challenged how policy makers and market participants view real estate finance and valuation practices," the report says.

"Are investments in energy efficiency to be approached as a discreet value capable of being financed independently of the underlying real estate asset, and then traded as "efficiency-backed" securities on secondary markets? Or, is an energy efficiency investment to be treated in the same way a lobby upgrade is, which without question drives new value to the real estate asset? The answer is both, as policymakers work to unleash market forces to reduce energy demand."

According to *New Tools. New Rules.*, innovation in this emerging investment market requires evidence of real costs and returns. Information now available on building performance indicates that feasible energy retrofits for an individual building typically save 20 to 30 percent and in some cases as much as 60 percent of energy use, depending on a building's age, type, design, condition and maintenance.

Still, while the value of energy-efficient measures is becoming more broadly recognized by the development community, a lack of standardized practices necessary to integrate that value into individual market transactions perpetuates “a gap between market reality and possibility,” the report says. “The challenge in financing energy-efficient retrofits of existing buildings lies in generating objective, accessible, peer-reviewed information for the tools, technologies, and full costs associated with the energy savings over specific payback periods.”

Market barriers notwithstanding, the report maintains that there is a strong business case for land use practitioners to incorporate energy efficient practices in their business strategies:

- Operating-cost reductions through energy savings in an era of tighter budgets;
- The creation of reputational advantage in the context of evolving voluntary and regulatory emissions reductions targets;
- The creation of new markets or lines of service leading to economic expansion;
- Improved tenant working environments, leading to employee retention and higher productivity;
- Lower building vacancy rates and tenant turnover;
- Reduced business risk in the midst of energy price volatility and changes in consumer preferences regarding green building;
- Reduced reputational risk in a globalized, increasingly transparent marketplace.

The report cites the need for a change in the perception of energy efficiency as an “investment in less,” as in less environmental impact, to an “investment in more,” or an investment that produces more value and cost-saving. It calls for elevating government research and incentives for energy efficiency to a level on par with those for wind, solar and other alternative fuel-oriented incentives.

Much of the information in the report was based on a ULI policy and practice forum held earlier this year in New York City that examined the opportunities and challenges presented by energy efficient investments. The report includes several case studies documenting alternative financial structures of energy efficiency investments in addition to reviews of prevailing market preferences and emerging regulatory frameworks.

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About the Urban Land Institute

The Urban Land Institute (www.uli.org) is a nonprofit education and research institute supported by its members. Its mission is to provide leadership in the responsible use of land and in creating and sustaining thriving communities worldwide. Established in 1936, the Institute has nearly 30,000 members representing all aspects of land use.