Unlocking Hidden Value in Class B/C Office Buildings

Best practices for pursuing low-cost, high-impact energy efficiency and green leasing strategies

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Unlocking Hidden Value in Class B & C Office Buildings: Monika Henn, ULI
Case Study: Dan Meitus, Elevate Real Estate Services
Available Resources from Energize Denver, Denver Smart Leasing, and EPA ENERGY STAR: Jake Dowling, RE Tech Advisors
Closing & Questions
Featuring:

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Opportunities for Energy Efficiency in Class B/C Offices

Monika Henn
Senior Manager
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Market Challenges
Barriers to integrating energy efficiency

INFORMATION CONSTRAINTS

RESOURCE CONSTRAINTS

FUNDING CONSTRAINTS
Market Drivers
Motivating Class B/C Owners to Take Action
Local Relevance

Increasing vacancy in Denver’s Class B market provides an opportunity to differentiate your space and lower costs!
Lay the foundation and engage stakeholders

Overcoming information constraints

- Take advantage of local education opportunities
- Lean on the property manager
- Benchmark energy consumption
- Understand local energy efficiency regulations
- Pass information on successes along

“Just because a building is Class B doesn’t mean things shouldn’t run as efficiently as possible. Everyone should benchmark their entire portfolio from the start. It is cheap and anyone and everyone can do it.”

Tommy Russo, Akridge
Optimize resources to maximize equipment efficiency and minimize costs and staff time

Overcoming resource constraints

- Ensure current building equipment operates efficiently
- Conduct an audit to identify site-specific measures
- Retro-commission equipment to ensure everything functions properly
Reduce capital costs and identify adequate funding

Overcoming Funding Constraints

- Identify strategies for financing energy efficiency projects
- Bundle energy efficiency into broader renovations
- Consider energy efficiency in value-add repositioning opportunities
Key Building-Level Strategies

1. Collect performance data
2. Implement low/no-cost measures
3. Engage tenants
4. Incorporate green lease clauses
5. Perform an energy audit
6. Perform retro-commissioning
7. Consider capital improvements
8. Bundle sustainability into planned repositioning projects
Project Profile

• Energy audit reviewed current equipment and operations at a Class B office building constructed in 1978.

• Recommendations were technical (LED bulbs, VFDs) and operational (more efficient warm-up and cooldown process, programming building controls)

• Results:
  • 252,000 kWh reduction in energy use,
  • $41,000 in annual cost savings
  • 50% decrease in tenant comfort complaints.
Project Profile

• Real-time energy monitoring across a commercial portfolio including a multitenant Class B/C office building built in 1963

• Monitoring provided buildings operations teams with better information about energy use

• Without typical building controls in place at the property, the implemented measures were simple, including breaker-level controls for each floor, variable frequency drives (VFDs), and most savings came from reducing unnecessary night load (by over 50%)

• Results:
  • $44,000 investment reduced energy use by almost 30%
  • $50,000 in estimated annual energy savings
  • Operational changes removed need for construction, tenant disruption, or large capital investments.
  • Highly replicable recommendations across existing portfolio
Green Leasing in Class B/C Offices
What is a Green Lease?

• Green leases lay an important foundation to overcome split incentives and drive more investment into energy efficiency opportunities

• Not only do green leases help align the financial interests of building owners and tenants, they also improve transparency and signal to existing and prospective tenants a commitment to sustainability

“Conventional leasing practices often hinder both landlords and tenants from investing in energy efficiency in a cost-effective manner.”

Green Lease Leaders Reference Guide
Existing Constraints to Green Lease Adoption in Class B/C Office Buildings

- **Information Constraints**: green leases are generally perceived as being too complex to integrate into normal-course business practices
- **Resource Constraints**: owners are unable to dedicate the time or staff capacity to implement green lease provisions
- **Funding Constraints**: added legal expenses that may come with involving legal counsel to change leases are generally seen as overly burdensome
Easy, Cheap, and High Impact Provisions

- Documenting efficient operations practices
- Setting energy efficiency standards for tenant fit-outs
- Implementing efficiency project cost recovery provisions
Optimal Timing to Integrate Green Lease Provisions

• **Timing:** The most opportune time to integrate green lease components is when signing on a new tenant via the standard form or when renewing an existing tenant.

• **Renewals:** When renewing an existing tenant, green lease provisions can be added via a short lease amendment.

• **MOUs:** For buildings with multiple tenants, implementing green lease language building-wide can be challenging given varying lease schedules.
Unlocking Value: A Case Study

Dan Meitus
President & CEO
Elevate Real Estate Services
Case Study: Arapahoe Court
(30,000 SF Office)
Building Overview

- Built in 1984 in Denver suburbs (DTC)
- Bought in 2017 at 33 years old
- 30,000 SF: 3 Floors about 10,000 SF each
- Recent new white, EPDM roof
- 1 Women’s and 1 Men’s Bathroom/ floor
- HVAC: 30 residential Package units with in-suite furnace with A/C Condensers on roof
- 10-15 Tenants
- Ann’l CAM Expenses about $6.80 psf
“Low hanging fruit”: 2018 Lighting Upgrade

- Installed LED’s in entire Bldg
- 2017 Utils: $35,600 or $1.19 psf
- 2019 Utils*: $29,400 or $.98 psf
- * Occupancy increased from 85% to 95%
- Estimated $6,200+/yr savings or 17+%  
- About a 3 yr payback, after rebates
- Other benefits include brighter hallways, greatly reduced maintenance costs
Additional Green Efforts

- Replacing HVAC packaged units systematically over 5 years for improved efficiencies
- Implemented consistent HVAC Preventative Maintenance plan (filters, etc)
- Installed Auto Flush valves on men’s urinals
- Installed Window film
- Repaired broken windows that didn’t open
Future Energy Efficiency Opportunities

- Energy Star Audit (not mandated by Energize Denver requirement)
- Continue to benchmark annually
- Engage & Educate Tenants in opportunities
- Consider Green Leasing provisions
- Install Programmable thermostats
- Install Auto faucets and more auto flush valves
- Evaluate ROI of Solar Panels
Denver Smart Leasing Program

Jake Dowling
October 27, 2020
Why Smart Leasing

➢ Leased Commercial Space in Denver represents about 9% of total City emissions
➢ 103 Million Square Feet of Leased Space (449 Million sq.ft Total)
➢ 23% of Building Stock
The Split Incentive

SPLIT INCENTIVE CHALLENGE

THE OWNER
Wants to make their building more energy-efficient. But if the owner pays for upgrades, why should tenants get all the benefits at no cost?

THE TENANT
Wants to be more energy efficient, but pays a flat rate for utilities by the square foot. So they have no incentive to use less energy.

ENTER THE GREEN LEASE

THE TENANT NEGOTIATES
Make the space more energy efficient
Submetering their space’s electricity, so they are paying for what they actually use—which will encourage more efficient operations

THE OWNER NEGOTIATES
Passes some of the cost of the submeter installation onto the tenant

http://www.greenleaselibrary.com/
SMART LEASING DENVER

Provides tools, training, and resources to better align the interests of tenants and landlords to achieve healthy, high-performance, energy-efficient buildings.

**Stakeholder Groups**

**BROKERS**
Help clients lease healthy, high performance, energy efficient spaces.

**ATTORNEYS**
Help clients meet their smart leasing goals in leasing documents.

**ARCHITECTS, DESIGNERS, AND SPACE PLANNERS**
Demonstrate added value to clients by helping them find energy and cost-efficient options.

**TENANTS**
Better health, comfort, productivity, and employee retention.

**LANDLORDS / PROPERTY MANAGERS**
Increase tenant retention and NOI by lowering energy costs.

**Denver's Impact**
57% Greenhouse gas emissions from commercial and multifamily buildings

20% of this from leased space

**Leasing Process**

1. Pre-lease and site selection
2. Lease negotiation and build out
3. Occupancy and operation

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Why Smart Leasing?

- Improve asset value through reduced operating costs and increase tenant retention.
- Increase NOI
- Align with employee green values

Landlords/Property Managers
Determining the Value of High Performance Buildings

$18.56
Additional Annual Value Per Square Foot

$8/SF
Enhanced Employee Productivity

$7.5/SF
Increased Employee Retention

$1.3/SF
Improved Employee Health & Wellness

$1.3/SF
Utility Savings

$0.37/SF
Maintenance Savings

$3,395
Additional Annual Value Per Employee

$1,459 / Employee
Enhanced Employee Productivity

$1,392 / Employee
Increased Employee Retention

$238 / Employee
Improved Employee Health & Wellness

$238 / Employee
Utility Savings

$68 / Employee
Maintenance Savings
Smart Leasing Steps for Landlords/Property Managers

1. Promote the energy-efficient features of your property to the market, including the ENERGY STAR® score.

2. Set efficiency standards build out of leased spaces and communicate your criteria and its benefits to prospective tenants.

3. Submeter your tenant spaces to increase transparency and provide data that can help you target and pursue energy-efficiency improvements.

4. Implement, evaluate, and continuously improve energy management practices throughout building operations to establish consistency towards achieving efficiency goals.
Take the Pledge!

When you take the smart leasing pledge, you simply commit to having conversations about **energy efficiency** and **sustainability** at each stage of the leasing process: pre-lease and site selection, lease negotiation and build out, and occupancy and operation.

Ready to start the conversation?

Visit [www.denvergov.org/content/denvergov/en/climate-sustainability/programs-services/smart-leasing-program.html](http://www.denvergov.org/content/denvergov/en/climate-sustainability/programs-services/smart-leasing-program.html)
Program Resources

- Access to expert advisors
- Case studies from peers
  - Have a story? Get in touch: smartleasing@Denvergov.org
- Best practice documents
Available Resources

Webpage

www.denvergov.org/content/denvergov/en/climate-sustainability/programs-services/smart-leasing-program.html
Available Resources

Stakeholder-Specific Best Practices
Additional Resources – EPA ENERGY STAR ®

- 10 Recommended Low/No-Cost Guidelines to Improve Energy Efficiency
- Leveraging Experts and Incentives to Maximize Performance
- Marketing, Leasing, and Tenant Engagement Guidance
- Rooftop Unit Series - Coming soon
  - Tools to Assess Performance
  - Maintenance Guidelines
  - Economizers
- Smart Thermostats for Commercial Office Buildings - Coming soon

Learn more at: https://www.energystar.gov/small_office
Additional Resources

Better Bricks:
- Leverage Leasing Practices to Reduce Energy and Utility Costs
- Selling Efficient Spaces: Brokers Bring Green into the Equation

Building Owners and Managers Association (BOMA):
- Green Lease Guide

Department of Energy’s Better Buildings:
- The Business Case for High-Performance Buildings

Institute of Market Transformation (IMT)
- Deep Retrofit Value (DRV) Green Leasing Tool
- The Business Case for High-Performance Buildings

National Resource Defense Council (NRDC):
- Energy Efficiency Lease Guidance

Penn Institute for Urban Research:
- Educating Commercial Real Estate Brokers on Green Leasing/Energy Efficiency
Taking action

Connect with us at smartleasing@denvergov.org to gain access to:

- Expert advisors for implementation
- Free recognition and promotional materials

Check out the Smart Leasing Webpage
- Sign up for our newsletter!

Spread the word with your colleagues:
- Stakeholder specific one-pagers
- Social Media #smartleasing
Q&A

Untapped sustainability opportunities have potential to:

- Reduce operating expenses for a Class B/C building
- Increase NOI
- Boost property value

Report linked [here](#)