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## CPNTechnology Q & A: Transcend Equity's Gossett on Green Retrofitting

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Transcend Equity is a 6-year-old privately held Dallas-based company that greens buildings at no cost and creating no debt for the owners. Transcend Equity contracts to pay the utility bills for ten years, and the owners/managers pay a fixed rate to the company. The average reduction in energy consumption – 30 percent. Transcend Equity is under contract now to green more than 33 buildings from Washington, D.C., to Dallas. *CPNTechnology* recently spoke with Steve Gossett Jr., President of Transcend Equity, about his company's approach to the green retrofitting buildings.

*CPNTechnology*: I have read that you are the only business out there that is doing what you are doing. Could you please explain the unique aspects of what you do?

*Gossett*: It begins with our tagline “Looking at things differently”. We created Transcend Equity to serve the unique needs of commercial real estate. Our primary focus is improving investment yield for owners of commercial real estate. Our ability to bridge the “Owner pays / Tenants save” disconnect is unique. Unlike a traditional ESCO or equipment manufacturer our perspective does not begin with energy savings or technology. Traditional energy services companies (ESCO's) act as though an office building has the same financial drivers as an elementary school or owner occupied building. They do not. Also, we believe our timing was right. The fundamental real estate drivers that existed when we started the business are still in place. They are being supplemented by the new emphasis on Green and Sustainability. We are in an excellent position today with a proven platform to provide green building solutions that enhance rather than detract from building financial performance.

*CPNTechnology*: Why do you think that more companies are NOT doing what you are doing?

*Gossett*: According to the National Association of Energy Services Companies (NAESCO), commercial real estate has historically comprised less than 5 percent of the total energy efficiency projects performed in the United States. Traditional ESCOs, technology manufacturers and contractors think in terms of expense savings, technology improvements and finite duration construction projects. Their traditional transaction models do not serve the unique needs of commercial real estate. There is plenty of “low hanging fruit” in energy savings projects in schools, universities, hospitals, government buildings and owner occupied buildings. Why should they suffer through learning all about recurring capX, expense stops, mortgage loan covenants, etc. that make commercial real estate unique?

*CPNTechnology*: What does it mean to be truly green?

*Gossett*: A truly green building is highly energy efficient and operated in an environmentally responsible manner. As you know our focus is on existing buildings rather than new construction. I believe the new LEED O&M standard is a reasonable, objective standard to determine if a building is truly “Green.” In order to obtain the LEED O&M certification a building must first prove that it is energy efficient by obtaining an EPA Energy Star rating of 70 or more (out of 100). Then the building must submit proof it has adopted various sustainable operating and maintenance practices. This involves such things as implementing a building recycling program and eliminating all polluting chemicals used in building cleaning and maintenance.

*CPNTechnology:* What are the screening criteria for you to take on a property?

*Gossett:* Properties that meet our investment criteria have higher than average energy use per square foot and generally have aging HVAC and control systems whose replacement costs will put pressure on the properties' financial performance. They also must be financially strong enough to justify our long term investment into the property. Our typical transaction requires no landlord capital or debt. This is because we use the savings stream we create to justify our investment. If our analysis shows the needed improvements cannot produce a 4 – 6 year simple payback then the project will not fit within our normal structure. In such a case we will perform a portion of the work via our MESA structure and the remaining work via an operating lease that the owner must capitalize.

*CPNTechnology:* What has been your most successful building greened in your 6-year life as a business -- and why?

*Gossett:* One favorite is at 1025 Elm Street in Dallas , a project that cost about \$1.25MM with a 5 year simple payback. The building was 85 years old and had the original boilers still in place. It also had inefficient 30 year old chillers and a cooling tower that were at the end of their useful lives. We replaced the two original boilers with 5 much smaller package boilers that consume about ½ of the gas used by the old boilers, replaced the chillers with more efficient new machines, replaced the cooling tower and added VFD's (variable frequency drives) to various pumps. We also installed a state of the art Direct Digital Control System in the building and replaced the T-12 lighting system with T-8 ballasts and lamps. The building is much more comfortable after our green improvements and uses 39% less energy. Its EPA Energy Star rating has improved from 48 to 85, making this 90 year old building one of the most energy efficient buildings in downtown Dallas . Our project has reduced greenhouse gas emissions by 968 metric tons annually, equivalent to removing 210 cars from the road annually or eliminating the energy consumed by 124 households annually. A typical project is one our COPT office projects in Maryland. In one building we replaced all 7 rooftop units, installed new DDC controls on the HVAC system and changed the existing T-12 lighting system to T-8s. The result has been a 30% reduction in energy use while simultaneously improving tenant comfort.

You should know that very often the claims you hear about energy savings are inflated or adjusted. In our case the numbers are real and auditable. Recognize that we (Transcend Equity) are responsible for the cost and payment of the energy bills. We, rather than our customer, bear the performance risk associated with producing the energy savings.

*CPNTechnology:* Who are some of your biggest clients?

*Gossett:* Our largest client is Corporate Office Properties Trust based in Columbia Maryland. We have done approximately \$13MM in improvements in 24 buildings and averaged 30% reductions in energy use across the buildings. Our \$13MM investment produces approximately \$2.5MM in annual savings for a bit longer than a 5 year simple payback.

*CPNTechnology:* Who are some of your competitors?

*Gossett:* Without question our biggest competitor is market inertia. What we do is unique and unfamiliar to decision makers. Our approach improves real estate investment yield in a non-traditional way and takes work to understand.

*CPNTechnology:* You say you are two pieces...the engineering construction and design, and also the finance side. Is it the finance side that is unique, or are there also novel ways in which you do the greening itself?

*Gossett:* On the finance side our transaction (MESA) is unique. Our Green approach is unique in that we do not go green for the sake of going green - we make our clients' buildings Green to improve their financial results in a measurable way. Most green proposals require sacrificing financial performance to improve environmental performance. We make a solid business case for going green.

*CPNTechnology:* Who are your investors, and how do you find them?

*Gossett:* Transcend Equity is privately held. We use bank money and private equity. We do not disclose the identity of our investors. Generally potential investors call us directly. There is a great deal of "Socially Responsible Investment" money looking for a home. Our projects are an ideal place to put money into solid, practical green improvement projects.