

## Energy Misers

***Company helps landlords save on electricity without capital outlays***

By Bill Hethcock | Staff Writer

A Dallas company is pumping greenbacks into green buildings, in a unique arrangement that gives landlords incentives to do the right thing for the environment -- and their bottom lines.

Transcend Development Corp., a private company formed in 2001, provides owners of older commercial office buildings with the means to finance energy efficiency improvements, without the landlords investing their own capital in the upgrades.

Here's how it works:

- ▶ Transcend gets landlords to sign managed energy service agreements, or MESAs, in which Transcend agrees to take over a building's utility bills.
- ▶ The landlord agrees to pay Transcend the historical amount of the utility bills for a period of time, usually 10 years.
- ▶ Transcend then makes capital improvements and earns a return on its investment from the efficiencies generated by the improvements.
- ▶ The landlords end up with a modernized building and lower utility bills.

The upgrades usually take six to nine months to install, and the buildings have a reduction in energy consumption that averages 25% to 30%, said J. Stephen Gossett Sr., president of Transcend.

Transcend's returns, after its capital investment, can vary widely from building to building, the company said.



Kenneth Brock

*COST-SAVERS: J. Stephen Gossett Sr., left, and Steve Gossett Jr. of Transcend Equity look over a chiller the company replaced in the basement of a building at 1025 Elm St. in Dallas.*

"We invest our capital into their assets," Gossett Sr. said. "If the owner did the same improvements themselves, the owner would be out all this capital."

Many landlords don't want to fund new equipment, such as chillers, pumps, lighting, and heating, air conditioning and ventilation systems, because they don't want to incur the debt. Or, they think energy efficiency investments don't offer the same payoffs as other business investments, said Gossett's son, Steve Gossett Jr., Transcend's vice president.

Transcend's program benefits the landlord, tenants and the environment, because the improvements wouldn't otherwise be made, he said. It also allows older buildings to stay profitable, even as energy costs continue to rise, he said.

"The owner ends up with all of the improvements in the building and gets huge green benefits at the same time," Gossett Jr. said.

The older the building, the better for Transcend, Gossett Sr. said.

"If it's older and has real capital needs, there's a lot of savings opportunity for us," he said.

If the building is sold during the contract period, the MESA is assigned to the new owner.

Transcend's largest client is Columbia, Md.-based Corporate Office Properties Trust. Transcend has modified 24 buildings for the giant real estate investment trust and will have done more than 30 by the end of the year, Gossett Jr. said. Transcend has invested about \$13 million in improvements to COPT properties and will have invested more than \$17 million by the end of 2007, he said. On average, it spends about \$5 per square foot on capital improvements.

## **Eye toward D-FW**

The company has only modified a handful of Dallas-Fort Worth buildings, but is returning its focus to its Metroplex roots for several reasons, Gossett Jr. said.

Interest in efficiency modifications is increasing because utility rates are rising in North Texas, he said. In addition, West Coast investors are aggressively buying underperforming D-FW buildings to reposition them, and energy efficiency is usually part of the fix-up plan, he said. Moreover, the timing is right because landlords are realizing that energy improvements don't have to come at the expense of returns.

"Bottom line -- we think we're going to make a lot of noise in Dallas in 2008 and 2009," Gossett Jr. said.

Transcend's business model works well for building owners, said Rick Shaw, a former executive vice president with SCI-ROEV Realty Group, which hired Transcend to make modifications to two Dallas buildings and one in Fort Worth four years ago. The largest was Elm Place, a 1.1 million-square-foot, 52-story building at 1401 Elm St. in Dallas, which was built in the mid-1960s. That was a major project that involved helicoptering in two new cooling towers and two new chillers and cutting a hole in the skyscraper's roof.

In each case, the age of the buildings provided opportunities to replace energy-using equipment and provide less risk of mechanical problems to the tenants, Shaw said.

"It's a way to improve the operations of the property," he said. "You have newer equipment, less risk of breakdowns, and at the end of the contract, your utility bills will drop."

Transcend has latched on to a winning business plan, said Andy Frank, an analyst at the New York City-based environmental strategy consulting firm GreenOrder. Frank said he doesn't know of others using the same strategy.

### **Untapped market**

One of Transcend's biggest challenges is to make landlords understand the strategy and prove it works, he said.

"Usually when you're financing energy efficiency improvements, the landlord will borrow from a bank or other financial institution," Frank said. "Transcend actually takes on all the risk of the performance of the system. They potentially reap higher rewards, but they're also taking on the risk."

Transcend primarily uses bank loans, but is talking to hedge funds who have an interest in environmentally conscious investments.

Frank said there is a large, mostly untapped market for energy efficiency improvements in the U.S. building sector, and predicted others will follow with business models similar to Transcend's.

Gossett expects to have plenty of competition soon.

"Nobody does what we do," he said. "We have no competitors. But we believe within five years this will be a huge market with many competitors."