

Transcend Equity Ready to Expand Green Plan

By Connie Gore



500 W. 7th St.

DALLAS-Locally based Transcend Equity Development Corp. has opened talks with hedge funds to expand its green plan for older office buildings. In the past four years, 2.5 million sf for a Mid-Atlantic REIT and a handful of one-off projects in Texas have served as the proving ground.

Transcend Equity founders J. Stephen Gossett Jr. and his father, J. Stephen Gossett Sr., caught hedge funds' eyes for developing an innovative program to make older buildings more energy efficient at no cost property owners. The Owings Mills, MD-based Corporate Office Properties Trust has had 24 buildings completed in its 44-building portfolio and has 18 more waiting in line for the six-year-old firm to tackle. Among the local projects that's been done for another owner is the 46-year-old Bank of America building at 500 W. 7th St. in Downtown Fort Worth.

To date, Transcend Equity has used private capital plus a variety of loans and credit facilities to fund the rollout, pooling several buildings into one financing vehicle. The junior Gossett says hedge funds are circling to set up a large revolving facility that would streamline the capital process and allow Transcend to expand.

The nuts and bolts of the system rely on a "management energy service agreement." Under the agreement, Transcend Equity completes and pays for energy-efficient upgrades in exchange for a 10-year payback equal to the historical electricity and natural gas costs for buildings "before" they are retooled. "If rates go up or down, we will pass the relative impact on to the customer," the elder Gossett says, adding the actual incurred cost is all that's passed along.

For the test REIT, the Gossetts tell GlobeSt.com that they achieved a 25% to 30% average reduction in electricity and natural gas bills for buildings averaging 18 years old. With the dust settled, they say the REIT has saved \$500,000 to date and \$12 million of recurring cap-ex on its line-item budget.

"It's extremely unique to the market. We know we're the only ones who do this now," says the junior Gossett, who is Transcend's vice president. "But, we believe in five years there will be several companies doing what we do."

The business plan targets energy-efficient upgrades that many owners wouldn't undertake in older buildings due to cost and lease pass-through provisions. "There is an economic disincentive that keeps them from investing [into energy-saving upgrades]," the younger Gossett explains. "We came to realize this is a vastly under-served market."

The plan started with a REIT because "it's the highest barrier to entry, but obviously the most lucrative," the junior Gossett says. "Before we could talk to other REITs, we really needed to demonstrate that it worked." They've now opened talks with several REITs in the northeast about their vintage office portfolios.

Transcend's retooled buildings won't merit LEED-certification, but the Gossetts say their next step is to achieve LEED-qualified status with older office buildings. The elder Gossett, the company president, says several of the test REIT's "least efficient" buildings were tackled to determine the extent of the savings that could be achieved. He says it was "a dramatic improvement," but not enough to hit Energy Star levels.

Transcend's upgrades target mechanical systems, air and heat distribution and temperature control. The father-son team says it's not about locking thermostats or renegotiating utility contracts.

The younger Gossett also points out that attacking "the energy pigs" in an office portfolio decreases the amount of time maintenance staffs spend answering tenants' calls in buildings. He claims a 25-year-old, fully leased multi-tenant building belonging to the Maryland REIT had its monthly number of hot-cold calls from tenants drop 90% after mechanical upgrades.

"It's not just about that a building is improved. It's about how much improvement is made," the junior Gossett stresses. "A building can be well located and have the right rent, but if it doesn't have good comfort and can provide a measure of reliability, it becomes a [lease] renewal issue."