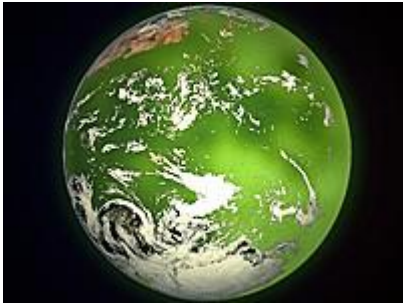


GreenerBuildings

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Green Building Predictions for 2009

by Leanne Tobias



The New Year is traditionally the time for business predictions, and my track record has been reasonably good, at least on megatrends. Here's my green building outlook for 2009:

o - **Green retrofits** will begin to come into their own. Rating standards have been delivered to the market — [LEED](#) (Leadership in Energy and Environmental Design) in the U.S., [BREEAM](#) (Building Research Establishment Environmental Assessment Method) in the U.K., [Green Star](#) in Australia — and Class A property owners are beginning to regard energy efficiency as a competitive necessity.

o - **Non-mortgage credit facilities**, including **ESCO energy-saving performance contracts** and **related vehicles** will grow increasingly important in financing green building upgrades. ESCOs, or energy savings companies, provide turnkey energy efficiency services. ESCOs contract with property owners to produce guaranteed levels of energy improvements and rent the required equipment to building owners under long-term leases. The lure: ESCO contracts are typically structured so that energy savings exceed contract payments. Advantages for building owners: Turnkey service, reduced operating expenses and no additional debt. Contract payments can be passed on to tenants as operating expenses.

A variant to the ESCO model is a long-term agreement under which **an energy efficiency supplier takes over a property's energy management and utility bills**. Such contracts have been long used in Europe, but are just being introduced in the U.S. — one company that supplies them is [Transcend Equity Development Corp.](#) At the end of the contract, the building owner owns the energy efficiency equipment placed in the property and inherits substantially reduced energy bills. A plus under this method: The property owner owns the energy savings equipment outright at the close of the contract term.

o - **Green real estate funds** are likely to pick up activity in 2009. I suspect that a good share of the action will be on the retrofit front, as investors acquire aging properties at favorable pricing and upgrade them for leasing at enhanced rental rates when the economy recovers. The year 2009 presents an excellent opportunity for equity investors to acquire assets at a low basis and reap appreciation in future years as market fundamentals improve. And value investors — at least those in the Class B+ and A segments — would be well advised to incorporate green into their upgrade strategies to differentiate their properties in the market and to compete with recently-delivered ground up development.

o - Look for **public-private partnerships** to grow in importance in launching green development as 2009 evolves. The new Congress and the incoming Obama administration are seeking to utilize shovel-ready and green strategies to boost the economy, as well as to create green jobs. Transit-oriented development, associated mixed-use real estate projects and the requirement of green features simultaneously achieve economic stimulus and energy efficiency.