

THE IMPACT OF ENERGY EFFICIENT BUILDING UPGRADES ON NOI AND ASSET VALUE

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Energy Conservation Measures (ECM), which include LED Lighting, Plumbing and Mechanical and HVAC upgrades, are proven to reduce energy and operating costs. Mechanical and HVAC upgrades could include Building Management Systems, Variable Frequency Drives on fans, pumps and motors, Free Cooling, installation of Condensing Boilers and Demand Based Domestic Water Boosters to name a few opportunities to reduce costs.

Investing in energy efficiency can yield a Return on Investment (ROI) of 30 to 40%, and an improvement in Net Operating Income (NOI) and significant Valuation Enhancement. By reducing energy and operating expenses NOI can be quickly improved giving the owner increased profits and/or a competitive advantage in the market.

NOI improvements from ECMs can be achieved in Hospitality, High and Low Rise, single and multi-tenant Office buildings, Manufacturing and Distribution Centers as well as High and Low rise multi-family buildings.

Today the value of energy efficient upgrades are further increased because of favorable tax treatment - 100% expensing and generous Utility Company Cash Incentives.

It is common for standard ECMs in a property 10 years of age or older to deliver:

- ▶ Energy Cost Reductions up to 40%
- ▶ Overall OpEx Reduction of 5 to 10%
- ▶ Value Enhancement of 5 to 15%
- ▶ Increased unlevered ROR by ½ to 2%
- ▶ Competitive Market Advantage

ENERGY EFFICIENT BUILDING UPGRADES ARE GOOD FOR BUYERS AND SELLERS!

A completed Energy Efficiency project in a 25 Story Office building located in center city Philadelphia reduced annual operating costs by \$208,000. The Energy Efficient Measures (ECM) included LED lighting, free-cooling, premium efficiency motors for the condenser and hot water heating pumps with variable frequency drives and Retro-commissioning of the HVAC systems.

In the two tables below observe the actual energy efficiency upgrade costs and the energy cost savings generated by the above mentioned upgrades (Project Matrix) and in the NOI Improvement table the effect these real savings would have on NOI and the "Cap" rate against typical market Rents, OpEx Costs and a hypothetical property value of \$33,600,000.

Project Metrics	
Total Project Cost:	\$622,000
Utility Company Rebate:	\$156,400
Net Project Cost:	\$465,600
Annual Energy Savings:	\$208,000
Annual Energy Savings SF:	\$0.86
Investment Recapture Period:	2.4 yrs.

NOI Improvement	Pre- ECM	Post-ECM
Rent SF:	\$23.00	\$23.00
OpEx SF:	\$(11.00)	(10.14)
NOI SF:	\$12.00	\$12.86
Annual NOI:	\$2,880,000	3,086,400
Return on Equity:	8.57%	9.02%

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VALUE ENHANCEMENT

An Owner of a \$33,600,000 property making these improvements at a Cap rate of 8.57 would see the value of the property increased to \$36,008,000 due to the improved NOI. This is a 7.2% valuation enhancement or an \approx \$3,000,000 value growth with an \approx \$500,000 investment in CapEx!

INVESTMENT ENHANCEMENT

A buyer of a \$33,600,000 property would realize an increase in their unlevered Rate of Return of .60% in net dollars by installing similar Energy Efficient building upgrades.

ADDITIONAL BENEFITS FROM ENERGY EFFICIENCY UPGRADES

Reduced Maintenance Costs - Another typical benefit of installing ECMs is the reduction in maintenance expense that comes from replacing aging equipment that is in need of repair or replacement. Quite often energy savings derived from certain high ROI ECMs can help offset the cost of equipment replacement.

“Green” Building Tenants Pay Higher Rent - That’s right, a CBRE Global Research and Consulting Review reported that the overall vacancy rate for green buildings was 4 percent lower than for non-green properties–11.7 percent, compared to 15.7 percent–and that LEED-certified buildings routinely commanded the highest rents.

- ▶ Higher productivity and better occupant health
- ▶ Promotion of a culture of sustainability among all building users
- ▶ Reduced environmental impacts
- ▶ Improved public image and marketing tools for both landlord and tenant

ABOUT US

Rich Energy Solutions’ experience runs from small to large HVAC efficiency upgrades, wireless Building Management Systems and energy saving LED lighting system upgrades to displacing city steam and chilled water loops, in-house thermal and co-generation plants.

For qualified customers Rich Energy Solutions will conduct free, no obligation on-site building assessments to develop cost savings analyses and system design and provide turn-key installation of all energy conservation measures. The Rich Family has provided construction management, mechanical construction and energy saving solutions in 38 states for public and private businesses since 1918. www.richenergysolutions.com

To learn how Energy Efficiency can impact your NOI contact:



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