

BREAKING DOWN THE BOTTOM LINE: A PRIMER FOR CITIES ON THE BUSINESS CASE FOR ENERGY EFFICIENCY IN PRIVATE BUILDINGS



WHY SHOULD BUSINESSES CARE ABOUT ENERGY EFFICIENCY IN BUILDINGS?

Why should companies put their staff effort and limited financial resources into documenting, analyzing, and reducing their energy use? The City Energy Project compiled data and conducted interviews with three leading real estate companies to illuminate the business case for efficiency in all of its dimensions – financial arithmetic, market positioning, policy compliance, and technical implementation. This document summarizes the key findings. For the complete findings, including extensive interview excerpts, [see the full report](#).

Property owners and the city governments that work with them need to understand *four main pillars of the business case* to ensure energy efficiency remains a strategy for equitably reducing carbon emissions from buildings.



1. THE FINANCIAL BUSINESS CASE: ENERGY EFFICIENCY DELIVERS OPERATING COST REDUCTIONS, NET INCOME, AND VALUE.

- Energy efficiency reduces energy costs and thus creates stable increases in net operating income (NOI).
- Increased NOI means increased property value, because properties are valued via [income capitalization](#). The arithmetic is simple – NOI is divided by a capitalization rate, which is market-based and commonly lies between 5 and 10 percent. Thus, an upgrade that reduces energy costs by \$10,000 per year, raising NOI by the same amount, could increase the value of the property by \$100,000 to \$200,000.
- Energy efficiency commonly yields incremental present value in the range of 1.5 to 4 times that of every dollar invested. In 2015, the Institute for Market Transformation produced several [commercial and multifamily case studies](#) looking at these returns and value effects.
- Even when tenants pay energy bills, property owners can recover the costs of energy efficiency investments through [green leasing](#) agreements and/or negotiated management fees.
- Amortizing the initial costs of energy efficiency investments through leases can allow companies to stretch their capital budgets and avoid having to rely on outside financing.
- Taken together, these returns (reduced owner-paid energy bills and/or cost recovery from tenants) typically exceed the cost of capital for building owners, thus justifying energy-efficiency investments even relative to opportunity costs.
- Technical tools for monitoring, analysis, and energy management have become more powerful and widely accessible, allowing businesses to efficiently identify opportunities, define the financial business case, and track results for specific buildings and projects.





2. INVESTORS AND TENANTS SEE EFFICIENCY AND SUSTAINABILITY AS KEY INDICATORS OF CORPORATE VALUES AND RESPONSIBILITY.

- Increasingly, corporate boards and investors are demanding that companies apply environmental, social, and governance (ESG) principles to their investments and operations. More than 1,000 real estate companies reported their ESG performance via the Global Real Estate and Sustainability Benchmark (GRESB) in 2019. Energy efficiency in buildings is an essential way to implement these principles and to concretely contribute to climate action and environmental responsibility.
- Attention to energy performance and environmental responsibility are viewed by many market stakeholders as indicators of good overall management.
- Advanced energy performance and sustainability can lead to certifications that are widely recognized in the market and thus create branding benefits for both landlords and tenants.
- Market players widely recognize a “green premium” for sustainable and efficient properties. [According to the U.S. Department of Energy](#), ENERGY STAR® certification for buildings yields a green premium in the range of 7.3 to 8.6 percent for rents, 6 to 10 percent for sale prices, and 10 to 11 percent for occupancy rates.
- Conversely, there is also a penalty for not being green, as a growing share of the market views the absence of ESG responsibility and sustainable operations as a sign that a company is behind the times, inattentive to details, disconnected from broader community goals, and offers less value as a potential investment or lease partner.
- Energy efficiency is good for company morale. Staff derive satisfaction from doing the right thing and feel empowered when they use data and energy management to solve or avoid problems, reduce maintenance efforts, and save the company money.

SHIFTING EXPECTATIONS

1,000+

Real estate companies reported their ESG performance via GRESB benchmark (2019)

7.3–8.6%

ENERGY STAR certification for buildings yields green premium for rents

3. CITY POLICIES ON BUILDING ENERGY PERFORMANCE SUPPORT THE BUSINESS CASE BY MAKING DATA MORE AVAILABLE AND TRANSPARENT.

- Benchmarking requirements encourage building owners to track and report energy consumption, which in turn can be the key first step in identifying opportunities to save energy and reap the financial benefits.
- Requirements for benchmarking, energy audits, and building energy performance transparency make data much more accessible for buyers, lenders, and prospective tenants as they assess whether to pursue transactions. Without city policies, such information is often disjointed or absent altogether.
- Compiling benchmarking data also prepares companies to answer common questions from investors and tenants who want to know how their buildings are performing and how much they cost to operate.
- Well-designed city policies compel businesses to adopt practices that make good business sense for all the financial and non-financial reasons cited earlier.



There is no “one-size-fits-all” approach to the business case for energy efficiency in buildings. Companies should make their unique business case based on their unique values, data, building stock, staff capacity, and local market conditions.



To read the in-depth interviews from which these findings are pulled, see “Breaking Down the Bottom Line: The Business Case for Energy Efficiency in Buildings” at www.cityenergyproject.org.

4. THERE’S AN ENERGY EFFICIENCY SUCCESS STORY FOR EVERY COMPANY TO TELL, EACH IN ITS OWN WAY.

- There is no “one-size-fits-all” approach to the business case for energy efficiency in buildings. Companies should make their own business case based on their unique values, data, building stock, staff capacity, and local market conditions.
- At the same time, companies can look to industry-leading counterparts for both broad and specific ideas. In the [full City Energy Project report](#) on the business case, readers can find detailed insights from three very different real estate companies—a developer of high-profile adaptive reuse projects, a healthcare office REIT, and a developer of affordable multifamily and senior housing—not only on how to state the business case for energy efficiency, but also how to operationalize it via portfolio management decisions, as well as data management approaches, and processes and principles for allocating company resources.
- Local government leaders, for their part, can help companies make the business case by showcasing local examples of efficiency, both in government buildings and in private sector properties. This might include:
 - » Publishing local case studies that recognize and elevate private sector progress on efficiency, such as recognizing and celebrating winners of private-sector challenge programs or local buildings that have made notable performance improvements as shown in year-over-year benchmarking data.
 - » Engaging local building owners and tenants to explain how local efforts such as benchmarking programs or local climate action plans can contribute to the business case for efficiency in private buildings.
 - » Support local clean energy organizations in the community to assist in making the business case for efficiency to local businesses and property owners.
 - » Help local clean energy organizations in your community make the business case to local businesses and property owners.

