ULI presentation hosted by RNL Design – Can sustainable also be profitable?

Turning green into greenbacks

Can developers go green and still stay in the black?

The answer is complex and evolving, and the topic got a thorough going-over by both a panel of experts and a highly engaged audience at [ULI Colorado](http://colorado.uli.org/)’s May 12 presentation, “Financing Sustainable Development: New Realities for the Recovery.”

The breakfast meeting was held at [RNL](http://www.rnldesign.com/) in downtown Denver, hosted by the [Sustainable Communities Committee](http://colorado.uli.org/Community%20Building/Sustainable%20Communities%20Committee.aspx) of ULI Colorado (SCC), and sponsored by RNL and [ARC Integrated Program Management](http://www.arcipm.com/).

[Sarah Spencer-Workman](http://www.linkedin.com/pub/sarah-spencer-workman/7/852/b29) , LEED AP, of Sedgwick Consulting, introduced the panel of speakers, noting “the fundamental connection between the ecological motivations of a project and its real estate investment.”  With the current rise in energy prices and fiscal restraint on people’s minds, Spencer-Workman said, there is an increasing demand for “development that displays exemplary environmental performance and efficiencies.”

All three speakers took a pragmatic tone, concentrating on what is possible at the present time.

“We often hold out the holy grail,” said [Stephen Ponce-Pore](http://sponcepore-bankofcoloradolo.mortgagewebcenter.com/), Energy Programs Manager for the [Bank of Colorado](http://www.bankofcolorado.com/), “that someday in the distant future, renewable energy and energy-efficiency will puts us on a par with traditional energy costs. We ask, ‘When will solar be the same cost as coal?’ But the truth is, we don’t have a technology problem. We have a financing problem.”

Ponce-Pore, who has unexpectedly scientific credentials for a banker, developed the Colorado ENERGY STAR Mortgage—a partnership with the Governor's Energy Office to provide reduced mortgage rates to homeowners that renovate their homes for energy-efficiency or purchase a new ENERGY STAR Home. That program, he says, allows homeowners to significantly improve the energy-efficiency of their homes without increasing their monthly debts. Although the Bank of Colorado’s program is dedicated solely to the residential market, Ponce-Pore said the Bank of Colorado is exploring avenues that could be used to finance larger-scale sustainable development and “is actively soliciting work in this area.”

Ponce-Pore earned degrees in biology, environmental conservation, and sustainable systems, and also ran his own energy-efficiency company before making the jump to mortgage banking. Through a series of displays, he demonstrated that the problem of financing “green” improvements is the loan term and that when they are factored into a long-term mortgage, they become affordable. During the question-and-answer period following the session, he talked about a theoretical mortgage type called PITI-UT currently under discussion in the industry that could also account for utility and transportation costs for a given mortgage holder.

[Jeff Schuster](http://www.linkedin.com/profile/view?id=44972082&authType=NAME_SEARCH&authToken=JOiM&locale=en_US&srchid=361edab1-aeec-4b2f-8fca-68cafe5ff0cd-0&srchindex=1&srchtotal=28&pvs=ps&pohelp=&goback=.fps_*1_jeff_schuster_*1_*1_*1_*1_*51_*1_Y_*1_*1_*1_false_1_R_tru), president of the energy services engineering firm [Ennovate Corporation](http://www.energyexpertise.com/), spoke specifically to the issue of energy savings with a highly detailed presentation focused on the question of whether sustainable design and development are actually lowering energy costs. It’s all in how you measure it, Schuster said, and it’s important to make those savings tangible, rather than speculative or just a feel-good gesture. He said that while he supports LEED goals, he faults the program for not considering cost savings, which are critical to the question of financing sustainability in his view.

Schuster explained the relative proportion of energy costs, which his company measures. Interestingly, heating is not the primary energy cost for a building—the big ones are lighting and air conditioning.

“Older buildings had those big leaky windows,” Schuster said, “so heating was a problem. But air circulation wasn’t, because of the air that was coming through the windows provided sufficient ventilation and allowed in a great deal more natural light that newer buildings do.”

Once building design began to seal in the heat, energy expenditures soared, Schuster said, with fans and pumps and air-conditioning becoming a major expense. Buildings can be retrofitted and new construction can be planned and designed to optimize energy savings. Schuster claimed that internal rate of return on energy investments could be as high as 150 percent for new capital outlay on energy conservation solutions.

One of the main obstacles to retrofitting buildings for greater energy-efficiency is the landlord-tenant relationship, Schuster said. The tenant pays utilities and would love to lower that cost, but it doesn’t make economic sense to pay for new systems. The landlord has no incentive to make the capital outlay, since utilities are being paid by someone else. Another challenge is that the cost of a building often exhausts the borrowing capacity of the owner, who may not be able to afford green improvements on top of that cost.

But sometimes the stars align. Schuster finds that with the right financing, banks are willing to make the capital outlay for green improvements in exchange for a collateral interest in the equipment that brings utilities savings, financing that is separate from a building’s development costs.

[David Zucker](http://www.zocalodevelopment.com/davidzucker.html), co-founder of [Zocalo Community Development](http://www.zocalodevelopment.com/home.html), spoke first to the big picture of energy savings, with *Inconvenient Truth*-style graphs to illustrate issues of population growth, the large increase in dwelling space over the last four decades, energy consumption, CO2 emissions and the urgency of building sustainably.

Zucker disagreed with Schuster about the LEED program’s ability to measure cost savings. The projects in his firm’s portfolio seemed to prove his point. These include Zocalo’s third “green” project, [RiverClay](http://www.riverclay.com/), which beat the [2030 Challenge](http://architecture2030.org/2030_challenge/the_2030_challenge) criteria for reducing energy consumption. RiverClay opened in 2007 and, says Zucker, data indicate that the building uses half the amount of energy consumed by other downtown Denver buildings. Zocalo was included in the Environmental Defense Fund’s 2009 [Innovations Review](http://www.zocalodevelopment.com/edf2009.pdf) for its creation of solar mortgages at RiverClay. The firm is initiating its fifth multi-family project (its third LEED-certified project) at [2020 Lawrence](http://www.zocalodevelopment.com/2020.html), which is expected to have a 75 percent reduction of energy costs. Financing came through the U.S. Department of Housing and Urban Development (HUD) and Zocalo has had support on the project from the [Rocky Mountain Institute](http://www.rmi.org/rmi/About+RMI), which focuses on sustainability and energy- and resource-efficiency issues.

Underscoring current interest in sustainability in the development industry, the audience stayed long past 9 a.m., when the program was slated to end. As Ponce Pore said, “People want to do what’s right. They want to help the environment—they just want to know if they can afford it.”

— [*Val Moses*](http://www.theprojwebsite.com)