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President Obama's plans for energy and the environment: the implications for commercial real estate

President Barack Obama has set aggressive goals for addressing global warming, U.S. dependence on imported oil, and alternative and renewable sources of energy. The recently passed U.S. economic stimulus plan includes numerous provisions—and billions of dollars—aimed at moving forward the energy and environment agenda. Both the president's energy plan and the stimulus package specifically call for greening buildings.

In this paper, Jones Lang LaSalle provides an overview of the administration's position on environmental policy and explores the implications for commercial real estate. Most importantly, we outline a four-step action plan on how your organization can capitalize on government-sponsored incentives and mitigate the risks inherent in a new regulatory environment.

President Obama's Energy Plan

President Obama's national plan for energy and the environment is the most aggressive ever proposed in the United States.¹ While not all the goals outlined in the plan directly impact commercial real estate, several of them do. The following section outlines these goals and recommends steps you can take to prepare.

To reduce carbon emissions 80 percent by 2050

This is an extremely ambitious and aggressive goal by any standard. Although the numbers fluctuate a bit from year to year, the Energy Information Administration reports consistently that buildings account for somewhere near 40 percent of CO₂ emissions in the United States each year. Numbers like these will not go unnoticed by

legislative and regulatory bodies. Real estate executives should act now to review their properties' energy and sustainability performance. Although, it is difficult to foretell how exactly this will appear in legislation, the stated goal is clearly not attainable without the active participation of the commercial real estate industry.

To implement a cap-and-trade system for emissions

A cap and trade system would allow companies to emit a specified amount of a CO₂—set by the government—each year. Exceeding this cap would result in a penalty, most likely as some form of tax. However, if your company emitted less than its cap, you can then sell the unused “emissions” to another company that would otherwise exceed the cap.

Some environmentalists, including former vice president Al Gore, have publicly advocated for a tax on CO₂ emissions over a cap and trade system. But recent indications seem to favor the adoption of a cap-and-trade program. In fact, in early March the U.S. Environmental Protection Agency proposed a rule that all major greenhouse gas (GHG) emitters begin reporting their emissions by January 2011. Experts consider this the needed foundation for implementing a cap and trade system. Although President Obama seems to have already encountered an obstacle with congress removing cap-and-trade from the proposed budget, it is likely to remain a key priority for his administration. Regardless of what kind of regulation is imposed, and when, companies should start by implementing strategies to reduce their carbon footprint—and, more importantly, their energy consumption. Companies that do so will be better positioned to manage new directives.

¹ For a comprehensive overview, visit www.whitehouse.gov.

For all new buildings to be carbon neutral by 2030

Strictly defined, carbon neutral buildings do not use energy from external power grids, and can be built and operated at prevailing market costs. Definitions vary depending on the source, and the methodology for determining a net carbon footprint can be complicated.

Nonetheless, not only has the administration called for all new buildings to be carbon neutral by 2030, many of the leading architecture and engineering professional organizations have also embraced this goal. Because cost premiums for green materials, technologies and techniques have declined significantly, and demand continues to rise, building green from the ground up seems to be the only strategy for sustaining competitive advantage and increasing asset values. If your organization's plans include developing commercial properties, now more than ever it should consider building green.

25 percent of electricity to come from renewable sources by 2025

Buildings consume 70 percent of the electricity in the United States. With the administration's goal that one-fourth of that will come from renewable sources in little more than a decade and a half, commercial real estate executives must face the challenge head on. Fortunately, the administration is committed to investing significantly in developing renewable energy sources, which have historically been extremely expensive. As more renewable energy comes to market, availability will increase and prices will moderate. Incentives for using renewable energy already exist, and new tax incentives and subsidies are expected to become available in the relatively near future. With this increased availability, lower costs and potential regulatory pressure, your organization should begin to explore and incorporate alternative energy strategies into its broader sustainability plans.

Increase existing buildings' efficiency by 25 percent over the next decade

This goal to dramatically increase the energy efficiency of existing buildings in a very aggressive time-frame is closely related to the goals set for carbon footprints and renewable energy. Essentially, it calls for immediate action. It has been said that all buildings are existing buildings, meaning that even newly constructed green buildings need to be operated and maintained in a way that ensures they are running at maximum efficiency. While older buildings may be more challenging to improve, the ENERGY STAR program and a LEED-EB assessment are both good starting points. Once you have

accurately assessed your real estate's performance, you should then develop an actionable improvement plan for the greatest return.

To establish a grant program for early adopters

Most compelling is President Obama's proposition to offer grants for early adopters. By taking inventory of your current sustainability initiatives, you will be prepared to make a business case to receive green incentives and funding as opportunities present themselves.

The Stimulus Package

In mid-February 2009, President Obama signed into law the American Recovery and Reinvestment Act.

For commercial real estate, the most immediately relevant aspect of the act is the \$3.2 billion in state funding for energy audits and improvements in commercial buildings. That money will be allocated to and administered through state-level programs. Because states are required to use the funding or lose it, they are looking for shovel-ready projects.

Real estate owners and occupiers should pay particular attention to what's happening in their states and regions, and be prepared to move quickly. A good number of states have already set up their own "recovery" web sites to help explain how they are spending funds allocated by the Recovery Act. These state sites can be directly accessed through the federal government site, www.recovery.org.

The stimulus bill in and of itself is not intended to deliver on the full promise of the administration's broader vision for energy and the climate. No doubt, additional aggressive programs and policies will be proposed going forward.

Preparing for regulatory changes: A four-step action plan

Given current economic conditions and competing national priorities, it is difficult to speculate how swiftly and specifically the administration will act to realize its vision for energy and the environment. The strength of their commitment to do so, however, is clear, as is the will to sponsor aggressive legislation to support their goals and we will likely see the regulatory landscape dramatically change over the next four years.

To prepare for and respond to these imminent regulatory changes, Jones Lang LaSalle has developed a four-step action plan to ensure your objectives and initiatives are aligned with Obama's vision and your organization is positioned to avoid risks and capture opportunities.

Step 1. Inventory current energy and sustainability initiatives, plans and programs

With federal and state energy-related bills and programs on the horizon, and the potentially narrow window of opportunity for incentives and funding, a necessary first step is taking inventory of all energy- and sustainability-related programs.

Why is this important?

- Identification of existing programs that qualify for “look-back” or newly enacted incentives
- Doing it in now will position you to move swiftly and decisively as new incentives, tax credits or other economic programs materialize
- Even if externally driven incentives do not materialize, projects and initiatives that lead to increased energy efficiency and sustainability will deliver a positive return on investment, often in the relatively near future

Step 2. Realize federal and local incentives already in place

As a corollary to the inventory of existing programs and initiatives, make sure you are taking advantage of incentives—local, state and federal—already available and that whenever possible you are aligning your strategy and identifying opportunities that lie on the horizon. Green incentives should be part of the planning stage of a project. Once a project is launched, it may be too late to satisfy incentive requirements.

Energy-related incentives take many shapes, including:

- Grants from utilities or government
- Fast-track permitting or plan review
- Reduced assessments or property taxes
- State tax credits
- Increased floor-to-area ratios (FAR)
- Fee waivers or reductions

Step 3. Capture your carbon footprint

Experience and logic suggest that any government initiative aimed at addressing energy and climate change will probably also result in higher energy prices. For the foreseeable future, a lot of attention will be paid to the “carbon footprint.” Legislation and regulation will almost surely address that issue either in the form of a cap-and-trade

Incentives

By familiarizing yourself with available incentives early on in the planning stage, you will be well positioned to negotiate with government agencies and ultimately streamline the approval process. Below is an overview of federal and state incentives to investigate:

Federal tax incentives

Renewable Energy Incentives

Included are tax credits for production and facilities using wind, refined coal, geothermal, biomass, solar, and combined heat and power systems

Transportation and Domestic Fuel Security

Provide tax credits for alternative fueling stations, cellulosic biofuel facilities, and for alternative fuel production

Energy Conservation and Efficiency

Incentives provide financing and incentives for state and local governments to reduce greenhouse emissions, for builders and developers to build efficient buildings or to improve existing buildings. These incentives also facilitate easy cost recovery for smart electric meters and grid equipment

State and local tax incentives

- Bond Programs
- Corporate Tax Incentives
- Grant Programs
- Green Building Incentives
- Industry Recruitment/Support
- Leasing/Lease Purchase Programs
- Loan Programs
- Personal Tax Incentives
- Production Incentives
- Property Tax Incentives
- Rebate Programs
- Sales Tax Incentives
- Local Utility Company Incentives

program or a carbon-emissions-related tax. Determine your carbon footprint now and you will better understand the imminent risks or opportunities this type of legislation presents.

Step 4. Embrace energy management and planning

Brutal reality, by every indication, says that energy costs will continue to rise and, in doing so, create even greater challenges for both real estate investors and those who lease space. Traditionally, occupiers have tended to be more vocal and active on energy efficiency because they bear the greatest portion of the costs.

As energy costs become a higher percentage of operating costs, however, occupiers may look beyond their own efforts to reduce consumption and more toward efforts by owners to increase the overall efficiency of their buildings. To remain competitive in the long run, owners should invest in “greening” their

properties. The benefits of doing so extend beyond competitive positioning in the leasing marketplace. The actual value of green buildings will continue to rise relative to those that are not. If incentives can be tapped to help finance improvements, the return on investment increases.

Given the current state of the economy and the government’s focus on energy, now more than ever, it is time to consider all avenues for increasing energy efficiency. Virtually any organization can reduce its energy costs without sacrificing business performance. Some companies have even decreased operating expenses by as much as 20 percent. If you don’t currently have an energy management plan, you should act quickly to put one in place. If you already have one in place, it’s time to measure its performance and be more aggressive than ever.

Jones Lang LaSalle Energy and Sustainability Services

Jones Lang LaSalle offers a range of services to help you prepare for and respond to the changing regulatory environment. Our services include:

- Consulting services
- Energy services:
 - Energy audits
 - Energy baselining
 - Portfolio energy management services
- Retrocommissioning
- LEED® services:
 - LEED® gap assessments
 - LEED® design charrets
 - LEED® certification management
- Strategic program development and management
- Sustainability training
- Sustainability property and portfolio baselining

Additional Jones Lang LaSalle Insights:

[Green Office Toolkit](#)

[Lean and Mean Means Green](#)

Marketing green buildings to drive competitive advantage

[Outsourcing in a strategic future:A study of eight top-performing CRE organizations](#)

[Property sustainability key to economic stimulus](#)

[135 Cost Saving Ideas](#)

Resources

<http://www.energystar.gov/>

<http://www.recovery.gov/>

<http://www.whitehouse.gov/>

To learn more about our services, please visit

<http://www.us.joneslanglasalle.com/sustainability>