

The Home Page of Corporate Finance Financial Week

Office trendsters say green is the new black

Up-front costs for energy efficiency will pay off later

By Matthew Scott

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TOWER OF POWER The energy bills at the new "green" Hearst Tower are 26% lower than those for a typical skyscraper.

Bloomberg

Corporations are being urged to adopt energy-efficiency measures in office and industrial buildings as standard operating procedure. Environmental advocates say the potential cost savings and gains in competitiveness from such measures are so great that they should now be considered fundamental in managing a real estate portfolio.

A recent study by the Rocky Mountain Institute, an environmental organization, and CoreNet Global, a corporate real estate trade group, warns that "energy efficiency is no longer an optional business strategy." As energy costs rise, the cost of maintaining corporate real estate increases as well. Green advocates say global competition will only add to the pressure on companies to make their buildings energy-efficient.

"All buildings are going to have to achieve these standards over some period of time," said Eric Bowles, CoreNet Global director of global research.

The up-front expense may represent the biggest corporate concern. The United States Green Building Council projects products and services for "green" buildings in the U.S. to exceed \$12 billion in 2007, up from \$7 billion in 2005. But costs didn't stop publishing giant Hearst Corp. from spending more than \$500 million to build the Hearst Tower in midtown Manhattan. The building is the most energy-efficient in the city, rated Gold by the USGBC's LEED certification rating system, the national benchmark for high-performance, environmentally sound buildings.

Brian Schwagerl, director of corporate real estate and facilities planning for Hearst, said the company's decision to make the 46-story, 856,000-square-foot office tower a green building did not focus on costs.

"Did it cost more to build green? Yes," said Mr. Schwagerl. "But it cost more for the type of increased security we put in the building, and it cost more for the upgraded communications and wireless capability too." He argued that

top-of-the line security and technology are just as important as top-of-the-line energy efficiency.

The new building allowed the company to cut real estate costs by consolidating its employees from 12 locations in Manhattan to one, which helped trim energy expenses as well. "Our energy bills are 26% less than a normal skyscraper, and we use 10% less water," said Mr. Schwagerl.

Similarly, Adobe Systems has spent \$1.4 million over the last five years adapting its three San Jose, Calif., office towers to be more energy-efficient. Randall Knox III, the software maker's director of global facilities services, said the company decided to cut energy usage at its headquarters more than 10% and now, after completing 64 energy-saving projects, such as installing new air-condition regulators, all three San Jose towers have won the highest possible energy-efficiency ratings.

And the investment in those certifications has paid for itself. Mr. Knox said local utilities and government agencies paid the software maker \$389,000 in rebates for making energy-saving modifications, and he calculated overall savings of \$1.2 million a year in lower energy costs.

"We figure that's a 121% return on investment," he said, "and a 9½-month payback—that's a no-brainer."

Mr. Knox said firms with older buildings don't have to spend millions to save energy. Adobe spent \$100 to adjust exhaust fan regulators in its car garages to operate for only 10 minutes an hour during the morning and evening commutes instead of having them operate 24 hours a day, which alone saves the company \$98,818 a year. Similarly, it retrofitted frequency drives on the main air-supply fans in its buildings at a cost of \$74,992, and placed adaptable frequency drives on the chillers that regulate air conditioning at a cost of \$23,793, which produced savings of \$48,256 and \$38,719 a year, respectively.

Perhaps the biggest plus to going green is that it can increase the overall value of each building. Mr. Bowles estimated LEED-certified buildings could command a 5% to 8% premium at sale. Mr. Knox said the real estate value of his buildings had increased by as much as 15%. FW

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