

PROPERTY MANAGEMENT

Quarterly

Management

New business models to bridge energy gaps

Going green is the new standard in real estate development. But it takes green to go green, which is why a change in business model (beyond just updates in technology) is the new key to bridging the energy-efficiency gap in the real estate market.

Expanding available technology was the first step to extending the reach of sustainability in real estate. Lunera and Cimcon Lighting are both stellar examples of technology advancement in the lighting industry. Lunera's Smart T8 bulb maintains the specification of a normal LED light bulb, but it uses an ambient computing platform to enable Wi-Fi monitoring, proximity messaging and context-based wayfinding. Cimcon's NearSky 360 is an outdoor example, transforming a simple streetlight into a hub to track parking availability, monitor noise levels and charge electric vehicles. Both go beyond technological advancement, too, to offer useable data businesses can benefit from collecting.

These innovations should be celebrated, however, their presence in the market doesn't make these solutions scalable. Although possible, it's not easy to scale portfolio adoption across commercial real estate.

The missing link to closing the energy-efficiency gap is a business model that enables these changes. What's traditional or standard in business does not account for the vast number of technology innovations or at the fast clip they are occurring.

Introducing new business models has worked in other sectors – like the introduction of the solar power purchase agreements – indicating it's more than possible in energy-efficient technology. There are countless organizations beginning



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to iterate how they do business, with adoption across the country.

Some models seen across the Centennial State – green leases, Commercial Property Assessed Clean Energy Program financing and as-a-service subscriptions – are early examples

of how new operating models are enabling green building decisions in commercial real estate.

• **Leases go green.** A green lease, for example, solves the split-incentive dilemma that discourages commercial and residential landlords from upgrading to energy-efficient systems. Sustainability projects often require a mass of capital, can take years to fully realize a return on investment and pass the immediate savings on to tenants who pay for the utilities.

Green leasing builds energy-efficiency measures into a lease agreement, allowing both the landlord and the tenant to realize benefits – namely higher rents and increased property value for landlords, and direct cost savings for tenants when they pay utility bills.

Boulder Commons in Boulder is a perfect example of green leasing in action. This type of lease has attracted eco-friendly businesses to sign leases and won the U.S. Department of Energy's 2017 Green Lease Leader award as a result. The city of Boulder is scaling the net-zero energy green leases across the city, which will further scale the 13 percent higher sale value, 3.5 percent higher rental rates, and a 3 to 7 percent higher occupancy rate Boulder Commons has seen.

Denver also is beginning to follow

the green lease trend, asking businesses that sign up for the Lease for Efficiency Challenge to ask their landlords about a building's Energy Star score before signing a lease.

Setting this green leasing standard is a templated way commercial real estate owners across Colorado can make energy efficiency more attainable.

• **Keeping pace.** Nineteen Colorado counties are using the U.S. Department of Energy's property-assessed clean energy model to bridge the energy-efficiency gap. Ogilvie Properties of Denver and Fiddler's Green Center of Greenwood Village are just two examples of the C-PACE model's success in Colorado.

The upgrades to two of Ogilvie Properties' buildings – including lighting and energy management system retrofits – will save more than \$113,000 in energy costs annually. The Fiddler's Green Center upgrades are even more extensive, including pursuing LEED certification for two buildings, and will save \$385,000 in annual energy costs.

In both cases, funding from the Colorado C-PACE model – \$2.3 million for Ogilvie Properties and \$7.1 million for Fiddler's Green Center – made the energy-conscious upgrades achievable. This model removes one huge barrier for the adoption of energy-efficient tech in Colorado real estate: up-front capital.

• **As-a-service approach.** One business model yet to be pursued extensively in Colorado is the subscription approach to green energy. As-a-service companies like Netflix have made ownership passé, paving the way for every industry – including energy and building infrastructure – to capitalize on the benefits of a subscription-based delivery model.

The benefits are compelling: Not owning technology removes the time, capital and risk barriers associated with constantly upgrading lighting, heating, ventilation and air-conditioning systems, and other energy technology.

Above all, the model brings ease to technology upgrades. Subscriptions allow a business to rent cutting-edge technology, taking the responsibility of maintenance and continual upgrades off a business's plate. This eliminates the risk of trying new technology, and the constraints of putting down cash to buy a piece of equipment up front. With more money in their pockets, businesses can scale their efficiency as-a-service solution across multiple locations, enabling energy managers to do a decade's worth of energy projects in six months.

Denver's Urban Land Conservancy is one of the first in Colorado to try the subscription model, using it to install an energy-efficient HVAC system in its Tramway Nonprofit Center.

• **Building a bridge.** As organizations continue to develop new customer delivery mechanisms, the key to bridging the energy-efficiency gap is marrying new ways of doing business with the latest energy technology.

Companies like Lunera and Cimcon Lighting are paving the way in their respective technology categories for commercial real estate to go green, but this goal is not easily achievable without green leases, C-PACE financing, as-a-service subscriptions and other innovative business models. The existing gap in energy efficiency in real estate is proof that the future of sustainability may not be in the hands of product developers as much as it's in the hands of utility companies and service providers revising how they do business. ▲