NATIONAL REAL ESTATE
Investor

What's the Payback on Green Initiatives for Commercial Property Owners?

Eric Alini, managing partner of the commercial real estate arm with green REIT Hannon Armstrong Sustainable Infrastructure, talks about green measures' financial payoff.

John Egan | Oct 22, 2018

Today's property owners are increasingly getting the message that going green can bestow both environmental and economic advantages.

On the environmental front, a new report from the Urban Land Institute's Greenprint Center for Building Performance shows that from 2016 to 2017, the nearly 8,000 global properties owned by Greenprint members reduced energy consumption by 3.3 percent, carbon emissions by 3.4 percent and water use by 2.9 percent.

Meanwhile, a new survey from the U.S. Green Building Council indicates that employees who work in LEED-certified buildings are happier, healthier and more productive than employees who work in conventional non-LEED buildings. Therefore, the thinking goes, a LEED-certified building could wield an economic edge, since it would be highly coveted by employees and, more importantly, by their rent-paying employers.

Annapolis, Md.-based Hannon Armstrong Sustainable Infrastructure, which bills itself as the first publicly-traded "green" REIT, has latched onto those dual values of going green. Since its IPO in 2013, the REIT has finalized about $5 billion in financing deals for sustainable infrastructure, such as solar and wind power projects, water conservation initiatives and HVAC upgrades at office buildings, hotels, apartment buildings and other properties.

One of Hannon Armstrong's latest transactions was a $10.5 million, 25-year Commercial Property Assessed Clean Energy (C-PACE) financing for energy-efficiency and earthquake-proofing measures at a new Hyatt Centric hotel in Sacramento, Calif.

In an interview with NREI, Eric Alini, managing partner of the commercial real estate arm at Hannon Armstrong, talks about the role of green investments in commercial real estate.

This Q&A has been edited for length, style and clarity.

NREI: How do you define green investing from a commercial real estate standpoint?

Eric Alini: It depends on the side of the real estate coin you're going to be on. For a property owner, it is investing in their properties to make them highly efficient, self-generating, sustainable and resilient from an energy perspective. From a financing perspective, it's financing all of those particular items for a property owner, whether it be through a PACE, or Property Assessed Clean Energy, financing; through an ESA, or an energy savings agreement; or through a PPA, a power purchase agreement. Those three mechanisms allow the property owner to effectively finance that investment in their properties.

NREI: If you're a commercial real estate investor, what's the benefit of green investing?

Eric Alini: All property owners are focused on the expense side of their income statement. A good, thoughtful property owner is always trying to figure out how to best reduce the costs of [operating] their property. If green investing in a building puts solar on the roof and reduces your energy costs by 15 percent, any good owner is going to think about how that gets done. It's one of the financial drivers that they can control a lot more efficiently than trying to drive up rents.

Another benefit is to make our buildings more sustainable and resilient. If you're going to be thinking about having your building survive a terrible hurricane, how can that building be brought back on-line so your tenants are happy?

In addition, tenants are focused on green buildings; millennial employees care, which ultimately means that your tenants care. The millennial generation is becoming the core part of the workforce; they're the ones who are sitting in your building on a constant basis. Any good property owner has to think about what their tenants want to make their building the most competitive in a given market. And you can't walk into a hotel now where they're not focused on sustainability—a green roof or sustainable outdoor space or on-demand elevator.

If investing in a sustainable building didn't drive the economics, it would be a harder discussion. But clearly, the value lies in the fact that you're saving energy. The traditional energy delivery model for a city is to spend $2 billion on a giant power plant, and then that feeds $2 billion in transmission lines, which then feed $100 billion in real estate. If a building puts solar panels on top of a roof, then you've helped cross out a $2 billion power plant. Then, you run wires from the roof to your tenants, and you've helped cross off another $2 billion in overall costs. And the property owner becomes their own power generation company. Now, you're selling the electricity to your tenants. The result is the property owner has taken what is an operating expense and turned it into a revenue source for the building.

NREI: What's the outlook for green investing in commercial real estate?

Eric Alini: The sky's the limit. It can only grow, because the story is so compelling. If you're able to offer some product, either financing or a building, that's not boring and means something in the marketplace because it is green, it is focused, it is setting a mission, it is leading the way, then you're interesting to tenants and property owners. People who aren't investing in sustainability in their properties are going to be left behind.

What you're seeing is a convergence between the energy markets and the real estate markets. If I had said 20 years ago that you were going to put some solar panels on your roof, generate enough electricity to run your building, store energy in case the skies are gray and, therefore, become a behind-the-meter generation company, you would have looked at me like, "That's fantasy." The reality is that this convergence is happening, and if you're not thinking about that convergence between energy and real estate, and how your building is going to react to it, then you're not looking toward what will become either a disruptive force in your local market, or a question that you're going to be asked by your tenants or, when you sell the building, the buyer.

What we're seeing here is a dynamic shift in the two markets as they begin to overlay each other. The convergence is happening, and it's important to embrace it, understand it and be disruptive with it rather than just standing there watching it run past you.