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Green Retrofits Turn a Profit

by Tom Ramstack

Corporate Office Properties Trust is getting \$13 million in energy efficiency upgrades to some of its buildings in the Washington area but will not need to pay anything more than it always paid for upkeep.

The company's contract with Transcend Equity Development Corp. represents a novel approach to energy conservation and the bottom line.

"We're completely driven by making a good business case for the efficiency," said J. Stephen Gossett Jr., Transcend Equity's vice president. "When people are getting killed at the gas pump, they pay a lot more attention to all kinds of energy. The higher energy costs are, the more valuable the energy savings we create."

What Transcend Equity gets is a cut of the energy savings.

Corporate Office Properties Trust is one of the biggest commercial landlords in the Washington area. Its tenants consist largely of government agencies and contractors. The Columbia, Md.-based real-estate investment trust owns 246 office properties, mostly in the mid-Atlantic.

As its energy costs rose, the company contracted with Dallas-based Transcend Equity to bring them under control.

Under the contract, Transcend Equity takes over each building's utility bills for 10 years after paying to install energy-saving equipment and building materials.

Corporate Office Properties Trust pays the same rate for its utilities bills that it paid before the contract, but it gives the money to Transcend Equity.

Transcend Equity uses part of the money to pay the lower energy bills and keeps the rest.

After 10 years, Corporate Office Properties Trust gets to keep the energy-efficient equipment and pays only the lower utility bills.

Mr. Gossett said he expects Transcend Equity to recover its costs in six years, based on energy savings averaging 30 percent.

Since the company started in 2001, it has retrofitted 33 buildings nationwide. Its business is growing along with utility rates.

Many of the buildings it retrofits were built in the 1970s and 1980s, before newer energy-efficiency standards made high-tech equipment and materials financially practical.

The retrofits normally consist of replacing older heating, cooling and lighting systems with newer models. Often, the company replaces insulation or puts in more energy efficient roof tiles.

The retrofits commonly take six to nine months at a cost of \$5 to \$7 per square foot.

Corporate Office Properties Trust was the first firm to hire it in the Washington area. Work on the first 24 buildings was completed last fall. All but one are located in the Baltimore-Washington Corridor. The other one is in Gaithersburg.

"We're in the process of looking at other prospects I can't name right now," Mr. Gossett said. He said only that the other companies are in the Washington area.

Transcend Equity is awaiting a response from Corporate Office Properties Trust on its proposal to retrofit seven more of its buildings.

Other commercial real-estate firms with properties in the Washington area that are investing in greater energy efficiency include Boston Properties and Washington Real Estate Investment Trust.