



by Dianne Crocker

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BEPAs:

A Growing Opportunity for Environmental Consultants

Interest in the energy performance of commercial buildings is on the rise. Stories abound about trophy commercial properties like the Empire State Building undergoing “green energy makeovers.” In response to market forces, a growing number of environmental professionals are adding building energy performance assessments (BEPAs) to their tool boxes.

A key driver is a host of energy disclosure laws—not to mention mounting concern over rising energy costs and recognition in the real estate sector that energy-efficient buildings are better investments. Reflective of this growing awareness of a building’s energy profile, new guidelines, ASTM’s *Standard Practice for Building Energy Performance Assessment for a Building Involved in a Real Estate Transaction* define how to collect, compile, analyze, and report building energy performance information prior to deal-making.

Environmental professionals are already building on this new opportunity and positioning their firms to capture a piece of this rapidly emerging market. Many industry insiders predict that BEPAs will soon be a standard part of due diligence—opening up a potential new source of work for qualified environmental professionals.

First Things First: What Are BEPAs?

A building energy performance assessment is a tool for calculating a building’s energy consumption and cost. Its purpose—to examine the energy use of a building as a matter of disclosure to an interested party (e.g., lender, prospective purchaser, tenant)—separates it from an energy audit, which is an in-depth review of how a building’s energy is used for the purpose of identifying energy conservation measures.

Although numerous factors, such as weather conditions, occupancy, and operating hours, can affect the process of calculating a building’s energy use, there is currently no universally accepted, standardized methodology used in the commercial real estate market to calculate a building’s energy performance and ensure consistency from one assessment to the next. This high degree of variability makes it difficult for users to rely on data, or to accurately compare one building’s energy performance to another.

Why Create an ASTM Standard Now?

In addition to the absence of a standardized approach for calculating a building’s energy usage, two other factors are driving the need for an industry standard. First, mandatory building energy labeling and transactional disclosure regulations have been passed in numerous states and municipalities, such as California, Washington, New York and, Washington, DC. Second, business drivers—buildings that are less energy efficient are less competitive in the marketplace and may be harder to lease and ultimately, harder to sell.

“Attracting tenants becomes more difficult, particularly since tenants typically pay for energy,” explains Anthony Buonicore, P.E., chair of ASTM’s BEPA task group and managing director of Buonicore Partners,

a Milford, CT-based real estate development and management group. "Inefficient buildings are often less valuable with respect to sale price, particularly as the green building trend continues to grow."

In addition to energy labeling and transaction disclosure regulations, there are also myriad new enhanced building codes directed at energy efficiency that will impact buildings slated for major renovations. "Compliance with some of these new codes will impact the capital needs identified in due diligence by a prospective purchaser," says Buonicore.

BEPA Components

ASTM's proposed BEPA process includes the following five components: site visit, records collection, review and analysis, interviews, and report preparation. To ensure consistency from one report to the next, the guidelines include specific requirements for

- how far back historical energy data need to be collected;
- the definition of a "major renovation";
- how variables are analyzed to determine what constitutes average, upper limit, and lower limit energy consumption conditions;
- the basis for determining pro forma building energy consumption; and
- how the information should be reported or disclosed.

One of the anticipated uses of the BEPA standard will be as a transactional due diligence tool to support prospective buyers and lenders who will gain insight regarding a building's energy use and energy cost; specific low-cost (or no-cost) energy efficiency measures available to improve the building's energy performance; and government and utility economic incentive programs that may be applicable to enhance the return on investment of energy improvement initiatives.

The BEPA standard is intended to supplement ASTM standards E 2018 and E 1527, the current industry standards for property condition assessments (PCAs) and Phase I environmental site assessments (ESAs), respectively. As such, a BEPA can be conducted at the same time as a PCA or ESA, giving consultants the opportunity to bundle traditional services with BEPAs.

Adoption of the Standard

When ASTM's BEPA standard becomes final this

fall, it will be interesting to see whether adoption is immediate or gradual. "I think ASTM's BEPA standard will be adopted slowly, mainly because the standard is ahead of its time," says Carl de Stefanis, P.E., CEM, CRM, president of Energy Reduction Solutions, a White Plains, NY-based provider of energy audits and consulting services.

"Currently, benchmarking energy performance is primarily driven by newly enacted governmental regulations and by corporate directives. Right now, market forces are playing a minimal role. Commercial property owners and investors are more concerned about maintaining occupancy than they are about energy costs, de Stefanis says."

Others see a faster path to adoption. "The standard is very timely," says Nathan Gillette, AIA, LEED-AP, vice president and director of Grand Rapids, MI-based Energy Finance Analytics, an affiliate of PM Environmental. "I believe we are going to see some immediate market penetration for this product because as more governmental entities require mandatory energy disclosure, there needs to be a recognized format for doing it. Otherwise, we'll see what happened in California when A.B. 1103 was passed and there was no framework to [calculate building energy performance]. That's chaos."

"Jurisdictions with transactional disclosure requirements typically point to [the U.S. Environmental Protection Agency's] Energy Star benchmark rating, which was not developed with transactional disclosure in mind and, therefore, has limited value to transactional stakeholders, given its lack of transparency and limits regarding data normalization," says Brian McCarter, chairman and chief executive officer of Sustainable Real Estate Solutions, a Trumbull, CT-based building energy and sustainability software provider for the commercial real estate industry.

"ASTM's BEPA standard, on the other hand, was developed specifically to meet the needs of transactional stakeholders and is fully transparent with respect to the calculation of the building's projected energy consumption and cost range. This is why I think it will likely become the scope of choice for parties in transaction," McCarter says.

It is possible that the ASTM BEPA standard will be adopted even in areas that do not yet have energy

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disclosure requirements on the books. "Lenders are beginning to realize that a BEPA can add value to a transaction by identifying operational cost savings, as well as by providing capital improvements funded by local economic incentive programs, which enhance the value of the collateral," says McCarter.

Gillette says several lenders are already looking at how to incorporate this type of due diligence on energy into their lending criteria. "We're already seeing interest from lending institutions on specialized lending based on energy efficiency upgrades." In addition, "certain lenders, most notably the U.S. Small Business Administration, already reward energy efficiency commitments, which can be identified through a BEPA, with more favorable loan terms," McCarter adds.

de Stefanis, however, thinks lenders may be slower to adopt the standard. "A lender unilaterally requiring benchmarking or energy performance [due diligence] will find itself at a competitive disadvantage, since such costs will be borne by the potential mortgagor."

According to McCarter, though, borrowers who are educated by their loan officers or environmental consultants about the potential value of green building due diligence won't see it as a burden. "In terms of potential negotiating leverage and the identification of government and utility economic incentives, borrowers often see this as a welcomed suggestion versus the burden that typically accompanies the traditional lender-imposed environmental due diligence process. Accordingly, lenders increasingly see this as a competitive advantage."

BEPA Qualifications

Some industry insiders are already predicting that consultants who offer BEPA services will have a competitive edge in the market. "Given the likely scenario in which users seek the time and cost efficiencies of working with firms that offer BEPAs bundled with PCAs or ESAs, companies that don't extend their service line to include a BEPA could

be at a competitive disadvantage," says McCarter.

The good news is that many professionals, particularly those who conduct PCAs, are already qualified to conduct BEPAs. "The BEPA's definition of a qualified consultant's 'relevant experience' is more akin to the knowledge base possessed by PCA providers, who are usually trained as architects and engineers, than those possessed by [environmental professionals], who may have a degree in environmental science and minimal formal training in [heating, air conditioning, and ventilation systems]" says de Stefanis.

Opportunity Is Knocking

"BEPA represents a new chapter in property due diligence where the focus is on identifying opportunities as opposed to avoiding risk," says McCarter. What's more, consultants who offer BEPA services could end up with long-term clients. "BEPAs will often lead to the identification of economically justifiable, energy-efficient retrofit potential, which represents an opportunity for the environmental professional to stay involved in an ongoing monitoring role with the building, project, or client," says McCarter.

"The opportunity for energy consultants is great," agrees de Stefanis. "Energy manifests itself in just about everything we do and consume; we just need to pay more for it to jump start this business. This will happen. Short of a national energy policy, another embargo, an incident causing shipping disruption in the Gulf, or another run-up in the cost of a barrel of oil, it could take a while."

Regardless of the pace at which adoption takes place, it seems clear that BEPAs represent new opportunities for environmental professionals. As Mark Twain once said, "I was seldom able to see an opportunity until it had ceased to be one." After release of the BEPA standard in just a few months, interest in assessing a building's energy use will likely rise. The only question is: how quickly? **em**

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