

Commercial Real Estate Monthly

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RULES & REGS

Building Asset Rating Plan Deserves An 'F'

BY GREG PETERSON
SPECIAL TO BANKER & TRADESMAN

If you own a commercial or multi-family building in Massachusetts, hold a loan on such a property, or run a city or town, you might want to know that the commonwealth has quietly proposed a new program to devalue your property, devalue your loan and devalue your property tax base.

Now, of course, those aren't the stated purposes, but they will almost certainly be the result.

As with many policy initiatives, it starts out sounding like motherhood and apple pie. The Department of Energy Resources (DOER) believes it would be a good idea to rate and publicly label commercial, multi-family and institutional buildings on an "energy asset" basis.



GREG PETERSON

A new profession of energy assessors would fan out to assess and rate the energy efficiency of core-and-shell buildings. Rather than looking at operational loads, the program would focus on the building – its roof, windows and envelope. The proposal was detailed in a white paper issued quietly at the end of December.

What could be better than improving energy efficiency in the long, cold winter of 2011 with its roiled energy markets? Plenty, as it turns out.

The white paper was prepared without representation from AIM, NAIOP, Greater

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Boston Real Estate Board or Greater Boston Chamber of Commerce. So, out of the gate it lacked input.

While the program would start off as a three-year pilot, the white paper makes it clear that DOER will strive to make the program mandatory by the end of that time. The program would require regular audits and re-audits of buildings. DOER acknowledges the cost of such audits might be considerable, especially as no assessors are currently trained to perform this first-in-the-world program. Buildings would also be required to be screened for purchase and sale transactions and financings. Guess who will pay for all this?

Grading On An Unfair Scale

The proposal seeks to minimize the number of different building categories, meaning that property types with very different investment and return periods and of wildly different vintages will be lumped together for assessment and labeling. Assessment will be done by comparing an existing building with the hypothetical,

brand-new, spare-no-expense "zero net energy" building.

The program would provide no economic incentives to address any deficiencies found by the required audits, but would rely entirely on shaming assets and their owners with bad grades. The proposal simply assumes, without any economic foundation, that all property owners will be in a market to pass through all of the costs to get out of detention.

Beyond all this, the program ignores the energy life cycle of physical assets. There is no plan to take into account the reality that the smallest carbon footprint building is almost always the building that already exists.

Newly constructed buildings on Greenfields, for example, will have a built-in labeling advantage over existing structures. And just last year, Sandia National Laboratories released a study confirming that increased-efficiency devices and systems usually result in *increased* overall energy consumption. So, the DOER proposal doesn't make sense from that standpoint either.

In short, this program is likely to devastate the property values of most of Massachusetts' installed building base, encourage business to look elsewhere, reduce loan portfolio values and property tax rolls, especially in our gateway cities, all at the worst possible time. DOER should hit the "off" button on this proposal. ■

Greg Peterson is a real estate and environmental law partner with Tarlow, Breed, Hart & Rodgers in Boston. www.tbhr-law.com