

Inside a Chicago green building success story

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What would move a landlord to look past the next 12 months of profits and losses and make their buildings more efficient? A one-stop-shop program in Chicago is arguing that simplicity is the answer.

By Alec Appelbaum, contributor

FORTUNE -- Landlords know by now that improving their building's electrical and heating efficiency doesn't have to cost much, because consultants, cheerleaders and regulators speaking up for "green buildings" have told them so hundreds of times. But the flip side is that these savings often don't add up to much in the short term, so many landlords put off the work until the government forces their hand.



PHOTO: FRANK POLICH/BLOOMBERG VIA GETTY IMAGES

What would move an undercapitalized landlord to look past the next 12 months of profits and losses and systematically rework their existing buildings? A program in Chicago is arguing that simplicity is the answer.

The "**Energy Savers**" project, sponsored by the nonprofit Center for Neighborhood Technology, yanks almost all hassle out of the retrofit process for participating Chicago building owners. Using grants from a variety of sources, the program's managers have overseen 7,300 retrofits and assessed over 20,000 rental apartment buildings since 2008. The program audits a building, offers a tutorial in how to fix weak spots like drafty doorframes and clanky boilers, and scares up loans, grants and tax credits. Unlike other rebate programs, it also goes hunting for customers.

"In other program designs, the onus is on the owner to find out about the rebate and apply for it and wait for six weeks," says Anne Evens, who manages Energy Savers. "[Our funders] had to believe we would be able to put money on the street." The Community Investment Corporation, a local not-for-profit lender, manages a pool of capital for low-cost housing, arranges construction financing with grants and below-market loans from its base.

The program targets small landlords who want to reduce operating costs and who often feel hogtied by appeals to energy virtue. Landlords like Sandeep Sood, that is.

Sood, a native Chicagoan, practiced law before he got the real estate bug in 2007. He says Energy Savers made retrofitting his 55-unit, 81-year-old property feasible. "They roped in energy funds into the

deal after doing inspection and they were able to put a second loan on the deal. It allowed us to make a lot of upfront improvements to the building and it wasn't just 'Oh, I want to put in a new boiler.' They came and did a lot of inspections."

For an investor like Sood, who focuses on sprucing up shabby properties at the edges of resurgent neighborhoods, the assessments and tracking provided a valuable education. "The building had been partially derelict -- people were staying there, not paying rent, sleeping in the halls. But it's a beautiful building with a huge swimming pool in the basement," he says. "We immediately changed out the boiler and had to replace the roof right away and they were able to rebate 50% of the costs. We were able to over-improve the building and now we have a waiting list."

According to Evens, the program's designers intentionally focused on small landlords who'd need extra handholding because utility owners tend to overlook these owners in their own programs. (Commercial energy customers pay higher rates.) With borrowers like Sood both aware of how to improve their buildings and able to promptly repay loans, the Energy Savers pool accumulates capital quickly.

Yet it's curious that one-stop shops like Energy Savers haven't flown as far in other cities, where a critical mass of funders, lenders, and officials are also itching to increase the efficiency of their buildings. After all, many utilities must meet energy efficiency standards, and plenty of dedicated nonprofits across the country have come up with creative ways to finance affordable housing. But Chicago's broadly dispersed ranks of small landlords, suggests Evens, make a one-stop shop more attractive there than in larger cities, where a few gargantuan owners may want to go their own way or negotiate directly with the government. The city also has a history of having strong-minded mayors -- and Richard Daley, who preceded Rahm Emanuel in the job, made greening a constant priority.

Chicago's utility, Commonwealth Edison, also had gotten religion about energy efficiency, according to market analyst Cliff Majersik. Majersik, who runs the Institute for Market Transformation in Washington, DC, notes that Chicago's utility is also trying to make retrofitting more straightforward. Many commercial buildings contain several meters that tenants can prevent landlords from reading. Commonwealth Edison is disclosing a building's total energy consumption to landlords, known as "whole-building data," which gives them more of a sense of what they need to fix and when. "They've gone from 70 buildings using a prior service that was not free or as user-friendly to 2,700 in two years."

Majersik notes that strong, patient advocates shepherded this change at CommEd. "Owners took a leading role in pushing for this: it didn't happen quickly," he says.

Advocates around the country have developed green building systems like **LEED** in anticipation of an era when the carbon in energy has a price, and big investors recognize that climate change will soon force major changes. But for a small owner, notes New York energy expert Candace Damon of consultancy HR&A Advisors, it can be maddening to navigate all the different agencies that control information about their buildings, and the final payoff may be modest.

So Chicago's examples, including Energy Savers, suggest that green-building idealism can catch on when utilities and landlords see less mystery around it. "Once utilities understand that this is something customers want, they can do it," says Majersik. "It's just that utilities move rather slowly."

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