

The Empire State Building Takes Leadership Role In Energy and Cost Savings for Tenants

A Groundbreaking Program: What It Means for Tenants, The Real Estate Industry and the Environment

On April 5, 2009, President Bill Clinton, New York Mayor Michael Bloomberg, and W&H Properties' Empire State Building (ESB) unveiled a new model for economically viable, replicable energy retrofits in the existing built environment to reduce materially energy consumption, operating costs, and carbon footprint.

The announcement was the product of almost two years of coordination, collaboration, and work under a veil of secrecy. Through 2010, we will issue four publications, of which this is the first, explaining the work underway at ESB and the value proposition of our work to brokers and tenants in New York City.

Global headlines and continuing close scrutiny by government, the real estate industry, and the "green" movement find a common conclusion: the ESB team of the Clinton Climate Initiative (CCI), Johnson Controls (JCI), Jones Lang LaSalle (JLL), and the Rocky Mountain Institute (RMI) permanently changed the game for the real estate industry. Energy consumption reduction, and concomitant environmental impacts of the single biggest source of carbon output in cities, the existing built environment, is achievable on an economic basis, and ESB is the world's leader.

ESB's work goes beyond the suite of green measures practiced in all W&H Properties' Pre-War Trophy office buildings. This "suite" of practices includes tenant waste and construction debris recycling, the use of non-contaminating cleaning fluids and pest control solutions, recycled content in carpets, and low off-gassing paints, adhesives, and wall coverings. This suite of green practices is generally cost-neutral, and helps improve the interior office environment but has no measurable effect on energy efficiency.

ESB's program, well underway now, goes further, incorporating building-wide upgrades and a unique set of services to assist tenants, without compromise, to reduce energy consumption within their spaces. ESB actually works with prospective tenants, and designs and constructs all of its pre-builts, to design and build energy conservation into their spaces. Energy consumption, after salaries and rent, is the biggest expense

of any office. Leasing space at ESB brings bottom line benefits and a healthier and more productive workplace to any company, demonstrating that landlords and tenants alike can successfully lower their operating costs in a manner that makes a meaningful, beneficial impact on the environment.



The critical importance of doing both was underscored by President Clinton at the press conference announcing the program, when he stated: "We will never conquer climate change until we prove it is good business to do so." In its leadership role, the Empire State Building is doing exactly that. The iconic tower has signed contracts and work is underway on course to achieve a 38-percent reduction in energy use, resulting in annual savings of \$4.4 million. As a result, carbon emissions will be reduced by approximately 105,000 metric tons over the next 15 years.

This program began when Malkin Holdings assumed the supervision of the Empire State Building in 2006, and immediately made plans for a top-to-bottom, building-wide upgrade program. During the review of building renovation plans, ownership realized the need to look at the upgrades from the perspective of sustainability. A "Dream Team" convened by CCI, and including JCI, JLL, and RMI studied those plans under a "Green Light, Yellow Light, Red Light" program; Green Light means there are no perceived potential energy reduction benefits; Yellow Light means there may be, let's study this further; and Red Light means there is a way to reduce overall energy consumption.

The model was built around the premise that an integrated approach with the right steps in the right order could produce a radically better result than the heretofore typical “silo” approach deployed in most energy efficiency retrofit efforts in which individual projects are measured alone and without consequence to each other. ESB is the perfect test bench, because of its iconic stature it provides visibility not just for the tri-state region, but around the world. The work was conducted in secrecy because it was not clear that success could be achieved in demonstrating the business case for deep energy efficiency retrofits.

The team’s priorities were straightforward. The solution had to be: transparent, measurable, replicable, and non-proprietary/open source. W&H Properties’ Anthony Malkin’s charge to the team: if we produce something which only works at ESB, we have failed. More than 60 energy conservation measures were considered and evaluated, but only eight cost-justified measures were chosen for the program. The integration of those eight elements constitutes an entirely new approach to building upgrades, using established, proven technologies combined in a unique way – the right steps in the right order – to achieve energy savings of nearly 40%.

The incremental cost to ESB of incorporating this work into the building-wide Empire State ReBuilding program saves

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costs by avoiding planned expenditures and requires a net additional project cost of only \$13 million. With the \$4.4 million of projected annual savings, the payback period is only three years. When the work is done, based on current ratings and

standards, ESB will achieve an Energy Star rating of 90, ranking the nearly 80 year old tower in the top ten percent most energy-efficient buildings in the nation.

Lawmakers, environmental groups, and the real estate industry are watching closely. With new legislation geared toward more energy-efficiency standards in buildings under consideration on a national, state, and local level, the real-world experience resulting from ESB’s innovative program is an invaluable resource and wealth of information, a rare example of “practice informing policy.” Cities from San Francisco to Philadelphia are studying our work. Advances at ESB have helped inform New York

City’s Greater Greener Building Code. Senators and Congressmen regularly are briefed or visit the work underway.

Most importantly, there are critical, bottom line tenant benefits to our work. Tenants with corporate mandates to achieve energy cost controls, a reduced carbon footprint and a healthier, more productive work environment (including fewer sick days, higher employee retention and enhanced recruitment), reap huge rewards from

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the built-in benefits that the Empire State Building brings as a result of its retrofit program. Our suite of tenant design and construction services has assisted over 100,000 square feet of new installations to achieve no-compromise bottom line benefits from energy savings. For tenants who desire, we can assist in LEED certified design and construction.

New tenants reduce their electric costs – the third largest component of occupancy expenses. ESB submeters electric usage in all new suites of more than 2,500 square feet. The energy efficiency team builds into every space a web-based Tenant Energy Management System that allows tenants instant feedback to measure, control and lower their energy costs, with actionable recommendations for improving efficiency.

W&H Properties has been able to implement both the energy retrofit program and the massive building-wide upgrade because of the financial strength of the Empire State Building Company. As with other properties supervised by Malkin Holdings, we have generations of prudent investment and management, which provides tenants with yet another advantage: the peace of mind that comes with knowing your landlord is financially stable, free of over-leverage, and fully capable of fulfilling all of its obligations for the duration of the lease term, and brokers the knowledge that their commissions will be paid 100% on closing.

The Empire State Building, the flagship of the W&H Properties Pre-War Trophy office portfolio, is a world-class address right in Midtown Manhattan, conveniently located near virtually all major subway lines, PATH trains, Penn Station and the Long Island Railroad, in the heart of the revitalized 34th Street Corridor.

In future articles, we’ll provide you with case studies of tenants bringing down their cost of occupancy while achieving their environmental objectives – and helping brokers gain satisfied clients. In the meantime, more information can be found at www.esbsustainability.com.

Thank you for giving us the chance to compete for your business.
And remember, at W&H Properties, brokers always receive 100% of their commissions upon lease signing.



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