Energy Tax Savers, Inc.
The EPAct 179D Experts

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Monetizing $16.6 Billion in Managed Real Property EPAct Tax Deductions

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Multi-billion dollar tax opportunities are available for the real estate property management industry in EPAct 179D deductions.

A huge tax opportunity remains woefully underutilized by America’s major real property managers. The nation’s top seven real property managers are in charge of over 9.2 billion square feet of real estate that is eligible for approximately 16 billion dollars in EPAct tax deductions. As mergers and acquisitions in the building managerial industry soar these numbers continue to climb.

Despite being responsible for overall building management, including making recommendations for energy efficient equipment that substantially reduces operating costs, the major managers have not, for the most part included EPAct tax incentives into ongoing projects analyses. Utilizing big data[i] and mandatory benchmarking should be able to optimize energy performance while generating substantial tax incentives.

The top seven managers can still act and use an IRS Form 3115 (Change in Accounting) catch up procedure to capture any missed incentives since January 1, 2006.

EPAct Tax Deductions

Pursuant to Energy Policy Act (EPAct) Section 179D, building owners or tenants making qualifying energy-reducing investments can obtain immediate tax deductions of up to $1.80 per square foot.

If the building project doesn't qualify for the maximum $1.80 per square foot immediate tax deduction, there are tax deductions of up to $0.60 per square foot for each of the three major building subsystems: lighting, HVAC (heating, ventilating, and air conditioning), and the building envelope. The building envelope is every item on the building’s exterior perimeter that touches the outside world including roof, walls, insulation, doors, windows and foundation.

On December 19, 2014 President Obama signed the bill extending the EPAct 179D Tax Credit for the 2014 tax year.

Current Look at the Industry

Seven of the largest property managers and their potential EPAct tax deductions are displayed in Table A on the following page.

As you will see, the real estate holdings by the largest industry players are quite substantial. Recent mergers and acquisitions in the property investment environment have substantially raised the bar for market share in the industry. In today’s market you’re either a national player or you’re not in the game. The latest rounds of consolidation included international combinations of DTZ and Cassidy Turley and Savills and Studly.

On a smaller scale, Cushman and Wakefield acquired Massey Knakal Realty Services in New York. Also, global equities and real estate brokerage BGC partners acquired Cornish & Carey in Northern California and merged it with its Newmark Grubb Knight Frank business.

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Property	Total Square Footage	Lighting Maximum Deduction	HVAC Maximum Deduction	Building Envelope Maximum Deduction	Total
DTZ	3,300,000,000	1,980,000,000	1,980,000,000	1,980,000,000	5,940,000,000
Jones Lang LaSalle	2,300,000,000	$1,380,000,000	$1,380,000,000	$1,380,000,000	$4,140,000,000
CBRE	1,800,000,000	1,080,000,000	1,080,000,000	1,080,000,000	3,240,000,000
Cushman & Wakefield	1,000,550,000	600,330,000	600,330,000	600,330,000	1,800,990,000
Newmark-Grubb Knight Frank	500,000,000	300,000,000	300,000,000	300,000,000	900,000,000
BGC Partners	165,000,000	99,000,000	99,000,000	99,000,000	297,000,000
Hines	161,000,000	96,600,000	96,600,000	96,600,000	289,800,000
Total:	**9,226,550,000**	**$5,535,930,000**	**$5,535,930,000**	**$5,535,930,000**	**$16,607,790,000**

Table A. *Note some of the square footage amounts include non-U.S. buildings which are not eligible for EPAct.

Other significant mergers are expected within the near future as well. ExorSpa, the investment arm of Italy's Agnelli family has been rumored to be seeking a buyer for Cushman & Wakefield. It has been valued at $2 billion and reports say that China's Fosun International is considering a bid. No doubt, the magnitude of the EPAct tax incentive opportunity should be attracting the attention of even the largest global investors.

The Industry Promises Expanded Services and Data Management

Facing increased competition, the real estate industry is promising an expanded universe of services and more sophisticated use of the data available to large-scale managers. A well-known example is BGC Partners, which recently purchased Newmark Knight Frank and Grubb & Ellis. Howard Lutnick, CEO of BGC's parent company, Cantor Fitzgerald, hopes to expand business by applying his firm's financial expertise to the data accumulated through these acquisitions.[ii]

LED Lighting

LED lighting[iii] is mainstreaming into virtually all building categories, including office buildings -- a prime facility category for the major property managers.[iv] LED technology almost invariably qualifies for EPAct tax savings, which can help meet payback period and ROI investment criteria. Once installed, LED lighting drastically reduces operating and maintenance costs for its users while improving important aspects of lighting quality and safety.

The LEED Building Tax Opportunity

The major managers proudly emphasize how many LEED buildings they have. There are over 20,000 LEED building projects in the United States, according to the U.S. Green Building Council.[v] Jones Lang LaSalle and CBRE have at least 28 and 100 LEED buildings respectively. These two property managers also have over 700 and 450 LEED Accredited Professionals (LEED AP) respectively. LEED buildings by definition are platformed for larger levels of EPAct tax deductions since LEED buildings use the baseline of ASHRAE 90.1-2007, an improvement over the EPAct's baseline of ASHRAE 90.1-2001.[vi]

Missed Benefits Can Be Captured

Missed EPAct tax incentives can be captured retroactively to January 1, 2006 (*See IRS Revenue Procedure 2011-14)*. The major benefit of using this procedure is that it does not require the filing of an amended tax return.[vii] With EPAct, all qualifying retrofits and new constructions completed after January 1, 2006 can be received immediately on a current tax return.

Monetizing Building Energy Benchmarking Data

As a result of mandatory and voluntary building energy benchmarking, the leading managers are awash in uniform and comparable building energy usage data. Benchmarking[viii] takes energy utilization for a building and compares this number with other similar property owners. A building qualifies for an Energy Star rating if it is in the 75th percentile or better for similar buildings nationwide. New York is one of the cities that mandates benchmarking.

As part of Mayor Michael R. Bloomberg's Greener, Greater Buildings Plan, new legislation has been passed that among many other measures, requires all of the city's private buildings of over 50,000 square feet to obtain benchmarking and energy audits by specific deadlines. Although some building owners object to the legislation, they should consider the upside. Kate Grossman, chief operating officer of New York City-based Greenwich Energy Solutions had this to say about the issue: "These laws may seem ominous at first because there is a cost to having these studies done, but they were designed to give you information that allows you to make cost effective choices and save money. None of the laws force you to do anything—and that's important for people to understand. Once people see the savings possibilities, they will just want to do these things[ix]."

The table below describes two industry leaders' benchmarking accomplishments:

Property Manager	Number of Buildings Benchmarked	Square Footage Benchmarked
CBRE	1383	256 million
Jones Lang LaSalle	1200	170 million
DTZ	420	Data not available

Like LEED buildings, all Energy Star rated buildings make excellent EPAct candidates. See the table below for a comparison among select property managers for the number of buildings with the Energy Star label. The leading property managers should have all Energy Star buildings reviewed for EPAct tax incentives and utilize the 3115 process to capture all previously missed tax deductions.[x]

Property Manager	Number of Buildings with Energy Star Label
CBRE	316
Jones Lang LaSalle	160
Hines	159
Cushman & Wakefield	96

Source: Energy Star Program

Conclusion

The large property managers are sophisticated companies serving sophisticated clients. Billion dollar tax incentives for an industry sector do not arise often. Hopefully the real property management industry will soon realize the magnitude of the EPAct tax incentive opportunity and act on it.

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[i] *"The R&D Tax Aspects of Big Data" By Charles R. Goulding, Jacob Goldman, and Charles G. Goulding at http://www.rdtaxsavers.com/articles/Big-Data*

[ii] Theresa Agovino. "Brokers battle for share." *Crain's New York Business*. (May 2012): Print.

[iii] *"The LED Lighting – LEED Building Tax Advantage" By Andrea Albanese and Charles R. Goulding @ http://www.energytaxsavers.com/articles/LEED-Building-tax-advantage*

[iv] Charles R. Goulding, Raymond Kumar, and Jennifer Pariante. "LED Lighting Can Play a Key Role in Securing EPAct Tax Benefits." *IMARK Now*. (February 2012): Print.

[v] http://www.usgbc.org/articles/us-green-building-council-certifies-20000th-leed-commercial-project

[vi] Charles R. Goulding, Taylor Goulding, and Amelia Aboff. "How LEED 2009 Expands EPAct Tax Savings Opportunities." *Corporate Business Taxation Monthly*. (September 2009): Print.

[vii] http://www.irs.gov/pub/irs-pdf/i3115.pdf for IRS Form 3115.

[viii] "*Tax Aspects of New York City's Building Energy Benchmarking Project*" By Charles R. Goulding, Andrea Albanese and Charles G. Goulding at http://www.energytaxsavers.com/articles/New-York-City-Building-Energy-Benchmarking

[ix] http://cooperator.com/articles/2199/1/Benchmarking-and-Auditing-Your-Building039s-Energy-Usage/Page1.html

[x] Charles R. Goulding and Spencer Marr. "Washington D.C. Energy Benchmarking Impacts Local Hotels." *Google Knol*. (June 2011): Print.