



Can Hotel Developers in Baltimore See the Green in Going Green?

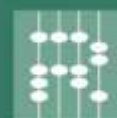
WHITE PAPER

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Do “green” hotels attract more guests? Some hotels have chosen to build green (as many say “go green”) and reduce their carbon footprint. The question for hotel owners and developers: Is it worth the efforts to go green?

In Baltimore going green is now mandatory since July 1, 2009. Baltimore has some of the toughest green laws in the nation such as requiring LEED (Leadership in Energy and Environmental Design) Silver rating for newly constructed hotels having at least 10,000 square feet of gross floor area (U.S. Green Building Council; www.USGBC.org).

What are the pros and cons of building a green-friendly hotel?

Pros:

- a healthier environment;
- reduced waste; and
- decreased long-term operating costs; and
- tax incentives available to assist with costs

Cons:

- an increase in site and development planning
- an increased lead time with ordering building products;
- additional structures may be required to support certain green options; and
- position of building for sunlight may cause zoning issues.
- potential guest annoyances could be low flow toilets require guests to flush properly and geothermal heating and cooling may not sufficiently get rooms to desired temperatures.

Most owners and developers might also consider overall cost of building a LEED certified hotel a con, but it is not as expensive as thought. If the planning is done initially the cost can be contained and is on average only about 5% more than conventional construction as noted by a national construction firm headquartered in the Baltimore area. The primary construction features resulting in a LEED certified building include specified mechanicals; energy efficient lighting; carpet made from recycled materials; using local regional materials; and using paint that is low or zero VOC (Volatile Organic Compounds). Remember that building green is a requirement now in Baltimore City. The good news is that the Federal Government is ready to assist in recuperating some of these costs using tax incentives.

The Federal Government has numerous grants under the Energy, Environmental Quality and Health categories which have the most impact on green construction. Two good resources for finding both Federal and Local Grants for green projects can be found on the Database of State Incentives for Renewables & Efficiencies (www.dsireusa.org) and the Environmental Protection Agency (www.epa.gov/greenbuilding/tools/funding.htm) websites.

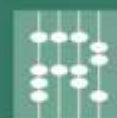
The Internal Revenue Code also has green options such as IRC 179(d), allowing the owner of the hotel to immediately expense the cost of energy efficient property and equipment up to a cap of

\$1.80 per square foot. Adding solar panels on the roof of a hotel can generate a 30% tax credit from the Federal Government. In researching conventional banking, green lending is still in its infancy, therefore no green specific financing packages are available; however, you should consult with your lending professional for any options that may come available.

The operating budgets of LEED certified hotels are definitely more favorable versus non-green establishments. An owner can expect a vast range of operational savings depending on what green systems they implement, such as the use of solar and geothermal energy, graywater systems, a number of HVAC systems and energy efficient lighting.

Green construction and operations are still too new to determine the exit capitalization rate, a valuing method, for green buildings and what LEED certification does to the valuation of a building upon sale, therefore the Green Building Finance Consortium (GBFC) group is currently developing the underwriting practices, tools and valuation methodologies required to assess from a fiduciary perspective, investment, or lending for green buildings (www.greenbuildingfc.com).

For developers, ask yourself: Is it worth it to gain that extra market share of eco-friendly travelers, to better the environment for generations to come, or to potentially increase the bottom line in the long run? If so, the end costs of construction versus the savings through operations will more than justify going green in Baltimore City.



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