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## Gone, and we hardly knew ye: Green tax credits will soon expire

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A couple of federal tax incentives aimed at encouraging green building techniques may expire before many developers realize they have existed.

Tax breaks for the installation of energy-efficient lighting and HVAC systems and for incorporating solar panels into a project will expire at year-end. While bills have been introduced to extend the credits through 2013, observers predict that Congress will delay acting on them until after the election in November.

If it seems surprising there's been no hullabaloo about the expiring credits, there are at least a few likely reasons, advocates say. Utilization of the credits thus far has been hindered by a lack of awareness, they say, and even those who are familiar with them see the credits not as an impetus for green building, but as a way of mitigating higher expenses for those already committed to green building.

"I have no idea what's out there. I haven't heard about any of them," says Massie Flippin, the vice president and city manager for the Carolinas for Liberty Property Trust, which built Bull Ridge I in Greensboro, the first LEED-certified speculative warehouse in the Triad and, Liberty says, in the country.

Proponents say Flippin is far from alone. Because the tax credits were approved in late 2005, it was mid-2006 before the IRS had given any instruction on how they should be applied, giving proponents only about 18 months to promote them before the

expiration date. That's a narrow time frame since the building has to be placed in service by the end of 2008 to qualify, and construction projects often take longer than 18 months to go from conception to completion.

Those familiar with the incentives say they fall shy of offsetting the extra cost for the construction, which most groups estimate to be between 5 percent and 7 percent higher than traditional construction costs. As such, they may make going green more affordable, but they are rarely a deal maker or breaker, says Mark Hill, a project manager with Landmark Builders who has been certified in sustainable construction by the U.S. Green Building Council.

Available tax credits are "one of the questions our clients bring (up) when talking about green construction because they realize it's going to cost them more money," Hill says. "(But) there are so many other factors that go into it. Money is just a part of the equation."

Of the two major federal tax breaks that are expiring, one is for companies that install lighting, HVAC systems and create a building "envelope" that exceeds American Society of Heating, Refrigerating and Air-conditioning Engineers (ASHRAE) standards by at least 50 percent. For each of those three areas, the company can receive a one-year tax deduction of 60 cents per square foot, up to a total possible deduction of \$1.80 per square foot.

One of the Congressional proposals would raise that to \$2.25 a square foot.

The second expiring incentive is for solar panel installation, through which businesses can deduct 30 percent of the cost of the panels and their installation.

North Carolina also offers a tax credit, which is not expiring, for the use of renewable energy. Under the law, businesses can get a credit on state taxes for up to 35 percent of the cost of installing solar panels, wind turbines or other electricity-generating devices. There is a \$2.5 million limit on the credit and it cannot reduce the business' total tax bill by more than 50 percent. The tax credit is spread out over five years.

Randy Pool, the managing partner of the Winston-Salem office of engineering firm Stantec, has been involved with sustainable design "almost as long as it's been around," including helping some states and even countries to develop guidelines and tax incentives.

He says North Carolina's incentives, in particular, are weak compared with those in other places that he has worked with.

For example, he says, he worked with Barbados to help craft laws which now give a 150 percent tax reduction on the extra cost of green construction. For example, if a standard lighting system costs \$10,000 and the company installs a \$15,000 green system, it could take a \$7,500 tax credit.

Pool says northwestern states have also been aggressive in developing green tax incentives and now are among the nation's leaders in green projects. Nationwide, several towns and cities also offer their own green incentives.

There are cases, he says, where a little extra tax incentive can be a deciding factor.

"It helps to get companies over that initial hump" of hesitancy and willing to embrace green construction, he says.

### **Benefits may be limited**

Even some companies that have utilized the benefits say they haven't reaped the benefits they had expected.

When developing the new Proximity Hotel in Greensboro, Quaintance-Weaver Restaurants & Hotels tried to take advantage of federal and state tax credits, says Will Stevens, the company's vice president of hotel operations.

While he doesn't know the exact dollar amount, Stevens says the firm saved "hundreds of thousands of dollars" on the \$25 million project because of the breaks. But, he says, the hotel's investors found out partway through the project that they wouldn't be able to take full advantage of most of the credits.

Because the hotel was developed by an LLC, the construction burden, and tax benefits, were shared among individuals. Some of those investors fell under the Alternative Minimum Tax and therefore were not eligible to receive the credits.

Even so, Stevens says the credits eased some of the burden of hotel construction and allowed them to do some things they wouldn't otherwise have done, like install solar panels.

"All of these things combined to help make it a profitable project," he says. "And the only way we can truly be sustainable is to make a

profit and stay in business.”

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