

WINTER  
2025

RESPONSIBLE INVESTING

**PRIORITIZING RETURNS  
WHILE ADVANCING  
SUSTAINABILITY**

The Dermot Company, winner of the 2023 PREA Emerging Manager ESG Award, is involved with multifamily real estate investment, ownership, and management with a focus on sustainability.



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**T** rue “responsible investing” must prioritize the optimization of returns. And optimizing returns can often produce tangential benefits such as reducing greenhouse gas emissions and enhancing sustainability and resilience.

Most real estate investment managers today recognize the potential of renewable energy and other sustainability strategies to build resilience, reduce expenses, and future-proof assets. With responsible stewardship of investor capital, all decisions around sustainability and resilience must make sound economic sense and improve the bottom line for the investments.

Investing in renewable energy, identifying and deploying innovative building technologies, and improving energy efficiency across a real estate portfolio, like all other aspects of business, must also be approached with due diligence, strategy, and an understanding of how regulatory and legal complexities can work for or against investors. According to the World Green Building Council, buildings are currently responsible for 39% of global energy-related carbon emissions. While a staggering factoid, this presents an opportunity for best-in-class operators to identify complex and unique opportunities to further enhance returns.

With the resources available today, there is great opportunity for direct cost savings to set up buildings for success in the future and to achieve more seamless operations. In this article, I explore why investing in these shifts now to benefit the future is critical and share strategies for successful implementation.

### **A Smart Economic Decision Amid Rising Costs**

At a time when electricity costs are expected to rise 19% on average over the next three years alone, strategies for decreasing energy usage and increasing self-reliance in energy procurement simply make economic sense. Although decreasing energy usage and procurement may require significant investment of time and money, these investments can become accretive in a relatively short period of time.

Because of the rapidly falling cost and increasing efficiency of solar panel systems, real estate owners are beginning to utilize solar power in new ways and on larger scales. For example, in partnership with BGO, Dermot recently completed the installation of a \$1.7 million solar energy system on the unused rooftops of two parking garages at Cordoba, a 454-unit luxury apartment community in South Florida. At full operational capacity, the solar energy system is expected to produce enough electricity to provide more than 50% of the energy needs for all the property’s common areas, including its extensive amenities.

Factoring in various scenarios surrounding rising utility costs, Dermot approximates a ten-year payback on cost—net of investment tax credits under the Inflation Reduction Act of 2022, which can cover 30% of eligible costs. With these panels expected to last 25 years, that is a large economic benefit over the lifespan. In addition, solar panels provide a hedge against increasing electricity costs in the future.

Though the benefits are clear, the process can be complex. After identifying the opportunity, procuring the right team to design and install the system at Cordoba was an intensive process. Although many commercial properties have utilized solar energy systems, a rooftop installation of this scale at an apartment community has rarely been done. Because of this, Dermot scoured the market to find an engineering partner with the right experience, ultimately selecting ESA in Orlando.

Navigating the incentives that help drive the economic benefit was another critical and complex step. With the recent signing into law of the Inflation Reduction Act, Dermot had to carefully review with both legal counsel and

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engineers to be sure the project qualified. Understanding how to monetize these credits under Internal Revenue Service rules for nontaxable investment partners took substantial time, and everything came together. Dermot looks forward to the resounding benefits of lower operating expenses and increased resilience for decades to come.

Although this was Dermot's first solar installation, the company has extensive experience with other impactful upgrades. For instance, at 220 East 72nd Street, a residential property on Manhattan's Upper East Side that was built in 1975, Dermot completed a comprehensive redesign aimed at enhancing the resident experience while improving energy efficiency. This project included replacing fluorescent lighting with LEDs, installing new double-paned windows, upgrading electrical

systems, and transitioning from steam heating and air-conditioning units to electric-powered, air-sourced heat pumps with Wi-Fi-enabled thermostats. These upgrades reduce operational costs by lowering energy consumption, improving insulation, and optimizing temperature control. The changes have the added benefit of decreasing reliance on fossil fuels and reducing carbon emissions, creating a greener, more efficient building. Driven by initiatives like these across Dermot's portfolio, the 2023 portfolio-wide results reflect a 14% reduction in energy intensity, a 5% decrease in greenhouse gas emission intensity, and a 16% decline in water consumption intensity compared with Dermot's 2020 baseline.

### **Staying Ahead of Future Opportunities and Challenges**

By investing in sustainable initiatives now, buildings can not only be positioned for higher value but also be better suited to adapt to improving technologies and equipped to withstand unexpected challenges or regulatory changes in the future. An EY study found that a green building will yield between a 10% and 21% increase in market value versus a comparable non-green building.<sup>1</sup>

Dermot anticipates rapid advancements in technology and policy changes over the next decade. With this in mind, installing systems to be adaptable for future technological changes makes sense. For example, large-scale battery storage for solar energy is currently cost prohibitive, but emerging innovations may make it a viable addition in the future, and the system at Cordoba was designed to accommodate future battery backup components.

Proactively upgrading buildings can help mitigate the risk of noncompliance as more cities and states implement building performance standards, which often include financial penalties for violations. This means that staying ahead of the curve is a smart, cost-saving strategy. In fact, in 2024 alone, Colorado, Maine, Nevada, and Wisconsin released state-mandated climate plans (with Maryland and Hawaii preceding

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1. Brett Johnson and Katie Miller, "Looking at ESG's Positive Impact on Property Values," EY, Nov. 11, 2022.



in December 2023), and nine states established heat pump installation goals.<sup>2</sup>

With the long-term benefits in mind, Dermot has committed to a portfolio-wide target of reducing greenhouse gas emission intensity by 40% from its 2020 baseline by 2030 to align with the goals of Local Law 97, which sets per-square-foot carbon emission limits.

### Education and Shared Commitment Strengthens Operations

Physical additions and upgrades to building systems compose the bulk of responsible investment in sustainability and resilience. That said, those are not the only components. Investment in efficient ways of monitoring emissions and effectively educating operations teams, partners, and even residents on energy reduction and other sustainability goals also drives the bottom line.

The good news is that resources are available, and those will expand as more states and municipalities refine their standards. For example, the New York State Energy Research and Development Authority offers funding for Top Ops, a hands-on training program designed to help property teams identify energy-saving opportunities. The program begins with an assessment and equips teams to better navigate evolving regulations, reduce operational costs, and meet sustainability goals. Through investment in strengthening staff expertise and energy management capabilities, real estate owners can be better prepared for both the immediate demands of energy conservation and long-term regulatory compliance.

Resident engagement also helps achieve better results. One effective approach is providing residents with user-friendly ways of tracking their own usage, such as through a phone app, and helping them understand broader consumption trends. Dermot's New York City buildings are grid interactive, enabling both residents and managers to adjust energy usage during peak demand and high carbon-intensity periods. This directly impacts the buildings' emissions and energy costs while also fostering a sustainability-conscious community, contributing to long-term energy savings.

Technology and the rapidly spreading commitment to reducing energy usage and enhancing resilience are converging to create truly effective financial solutions. However, ensuring that sustainability investments add to the ultimate bottom line of properties takes a well-defined strategy, continuing education, and ongoing, active participation from both a fully trained staff and informed residents. ■

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2. Ruby Wincele, "2024 State Climate Progress: Our Full List of Enacted Policies and Trends," Climate XChange Education and Research, Inc., Dec. 17, 2024.