

Green Appraisal in Practice:

**Working with Appraisers, Building Owners,
and Lenders to Build Demand for Green
Appraisal in Washington, D.C.**



Finance Team

Institute for Market Transformation

Megan.houston@imt.org

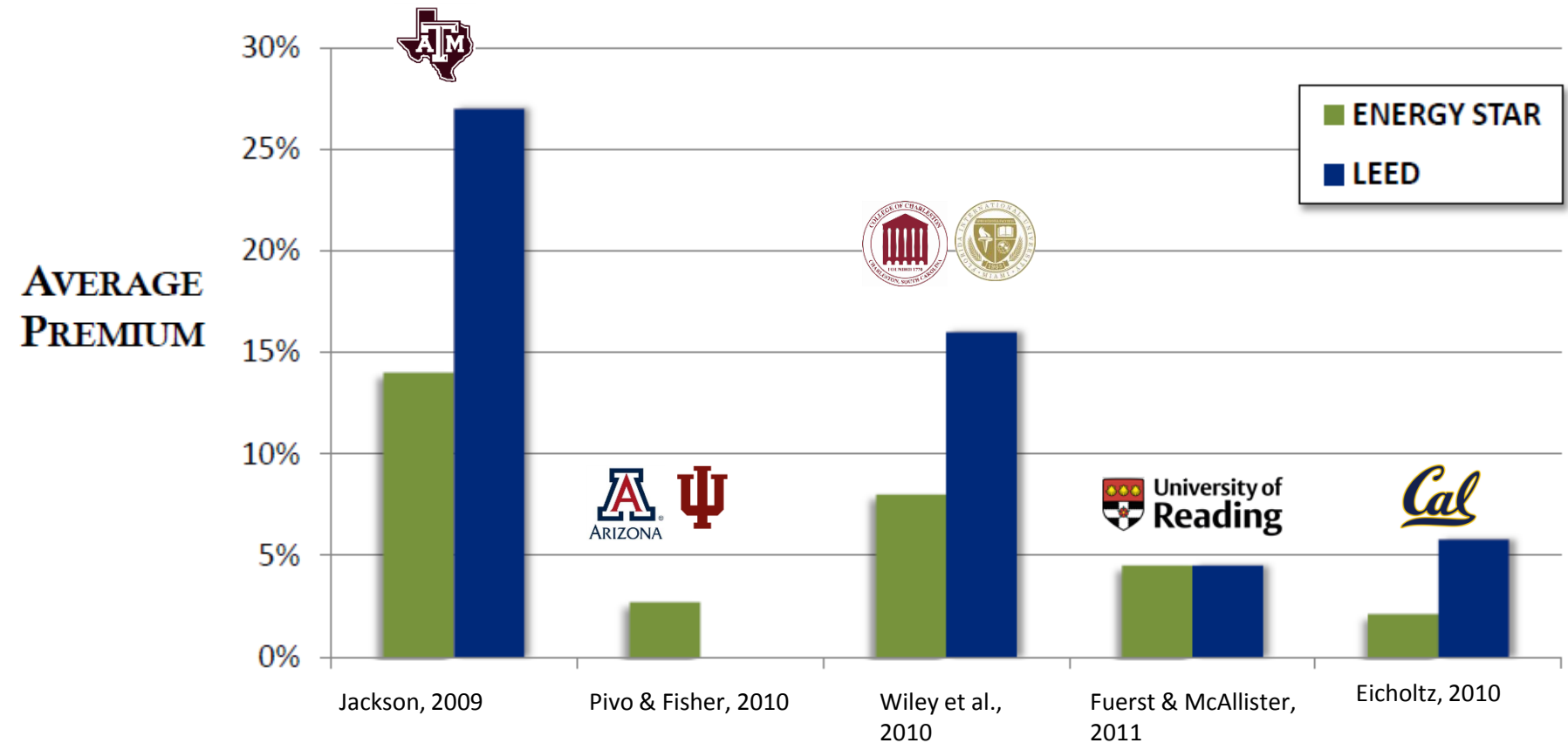
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The Opportunity

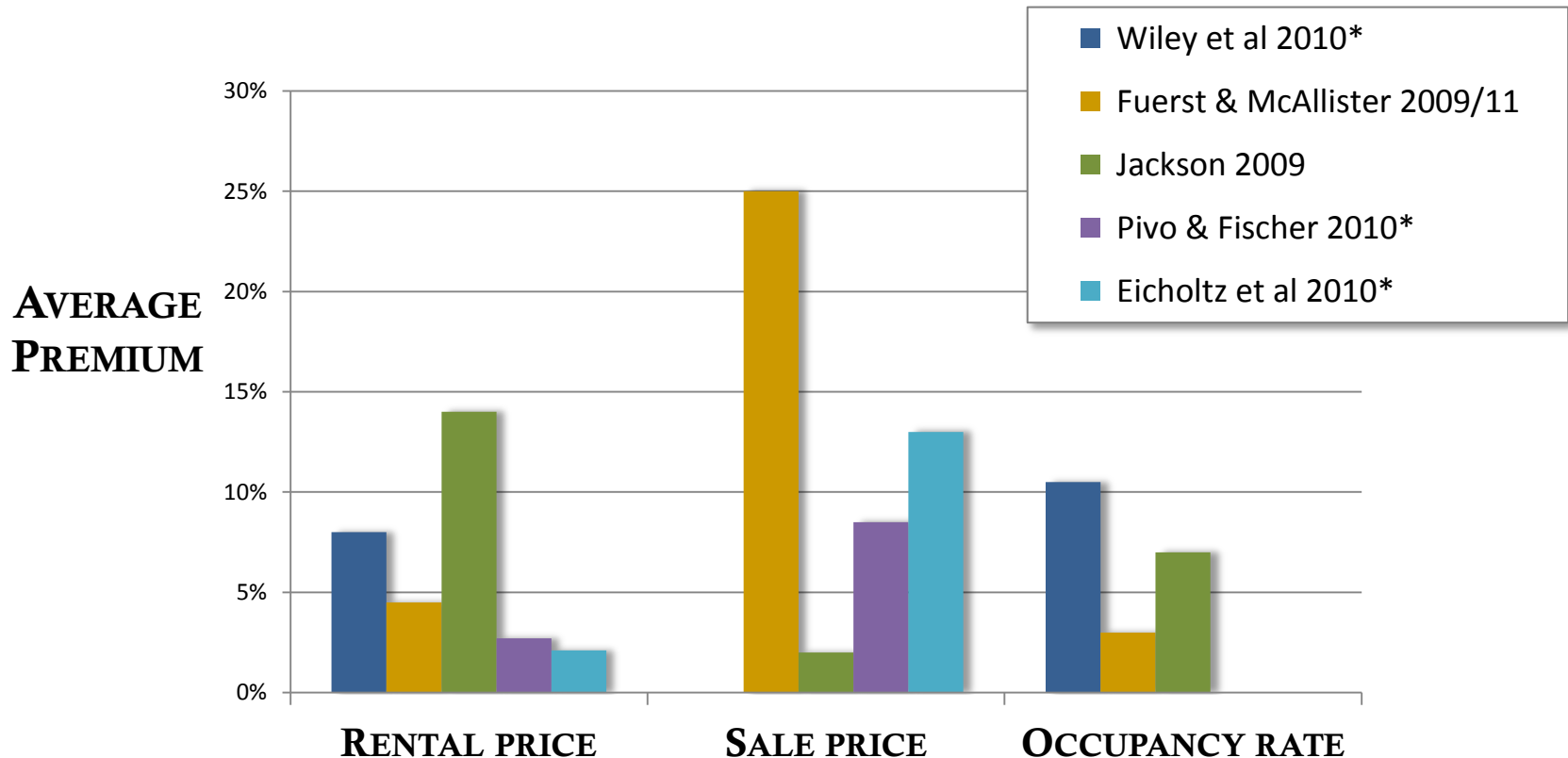
- **Appraisal magnifies** the value of efficiency measures that do not seem significant at first glance
- **Train appraisers** to value green buildings
- **Owners and lenders** need tips on how to work with appraisers to get the green in their buildings valued
- **Deep Retrofits:** Owners usually won't pay for retrofits unless they can see value proposition – appraisal creates a crucial feedback loop



Rental Premiums for Green Commercial Buildings in the U.S.



Added Value of ENERGY STAR-Labeled Commercial Buildings in the U.S. Market



Barriers to Including Energy in Appraisals

Appraisers often ignore energy costs completely, or treat them as constant, for a variety of reasons:

- Dismissal of energy's importance
- Lack of information
- Lack of expertise
- Mistrust of data provided by owner
- Lack of client (lender) mandate



Courtesy of Flickr user: glennharper

Lending and Appraisal Basics

Two key tests for underwriting loans:

- Debt-Service Ratio
- Loan to Value Ratio

Appraisals are a critical part of the Loan to Value Ratio.

Loan to Value Ratio can determine whether you qualify for a loan and on what terms.



Courtesy of Flickr user: only alice

Result: Missed Opportunities

When energy is ignored in the appraisal process, opportunities are missed to:

- Finance and spur energy efficiency improvements
- Encourage efficiency lending
- Reward owners who invest in EE
- Add value to communities



Courtesy of Flickr user: TuttleTree

Appraisal Methods

Three methods of valuing properties:

1. Sales comparison approach
2. Income approach
3. Replacement cost approach

Income approach:

- Value as a function of Net Operating Income (NOI) and Capitalization Rate (Cap Rate)
- $(\text{NOI}) / (\text{Cap Rate}) = \text{Value}$
- Energy efficiency boosts NOI
- \$1 NOI = \$10-\$20 in appraised value (depending on market)



Photo courtesy of Flickr user: Mars Hill Church

Four Components of Value

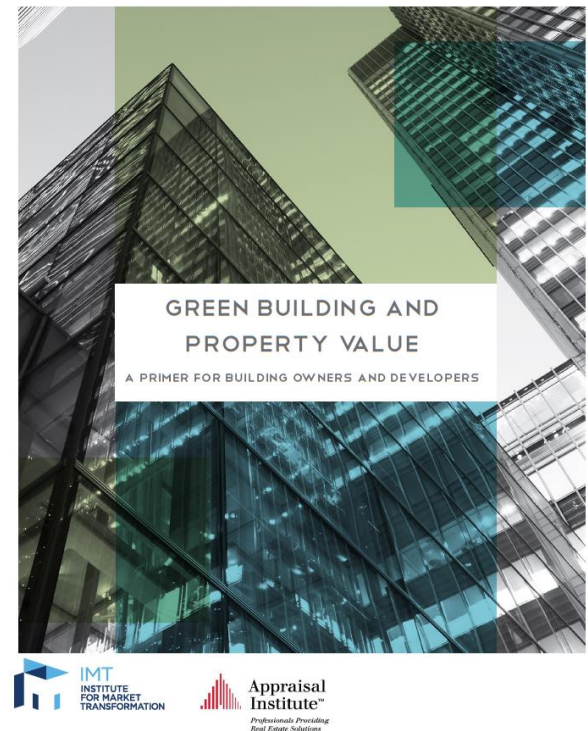
- Revenue
- Occupancy
- Operating Expenses
- Risk

Example:

200,000 square foot building, 6% cap rate,
\$50/sf per year rent

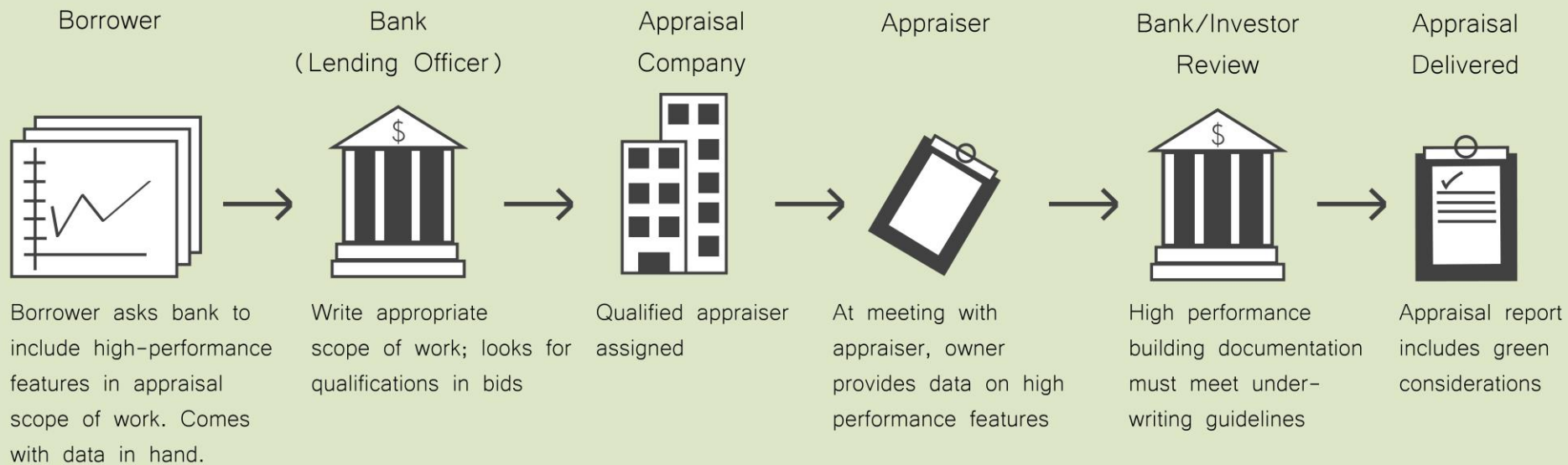
**Lowering energy use by 10% from \$3/sf
yields \$60,000 in NOI – \$1 million in value**

**Increasing occupancy 1% yields
\$1.67 million in value**

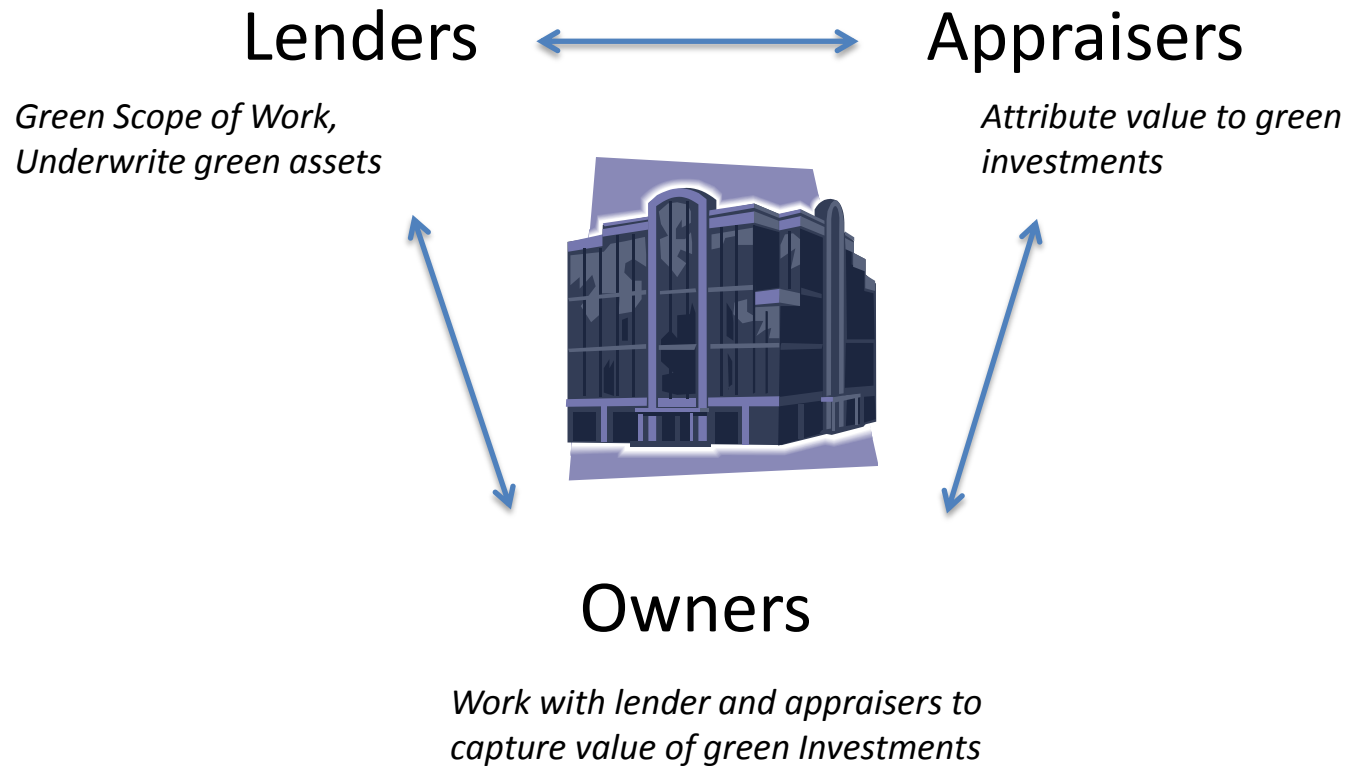


Getting Appraisal Right: Owners

APPRAISAL PROCESS FOR GREEN BUILDINGS



Strategy



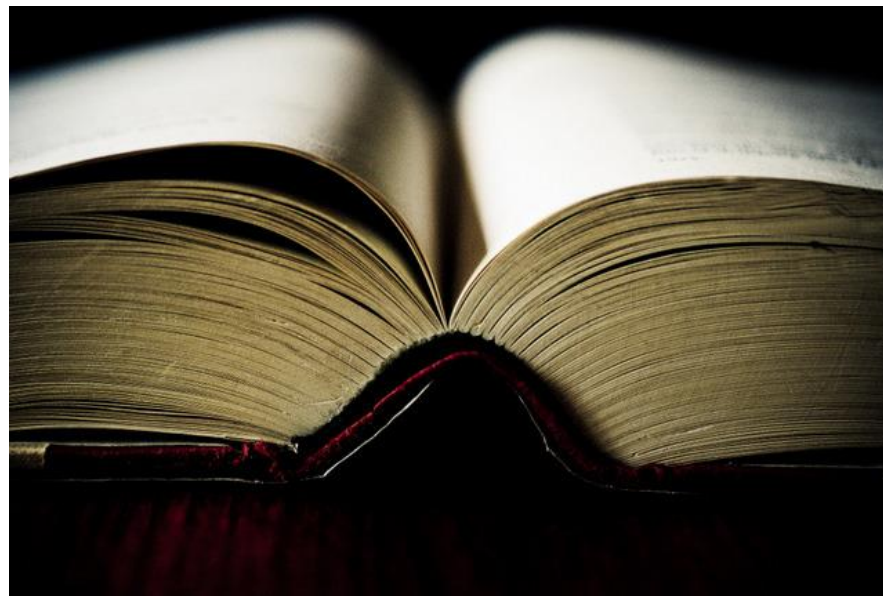
Training

Take advantage of continuing education requirements:

- Appraisers need 28 hours of CE every 2 years
- Real estate agents need 21.5 hours every 2 years

Keys to success:

- Leverage national content – don't reinvent wheel
- Partner with local provider to reach target audiences & secure CE-credit approval



Courtesy of Flickr User: Bob AuBuchon

Outputs

- Sponsor two training events with the Appraisal Institute's DC Chapter
 - ✓ Intro to Green Buildings
 - ✓ Commercial Case Studies
- Roundtable with appraisers, lenders, and owners
 - ✓ Includes other groups: contractors, pre-construction experts, and private equity
- Appraisal guide for lenders



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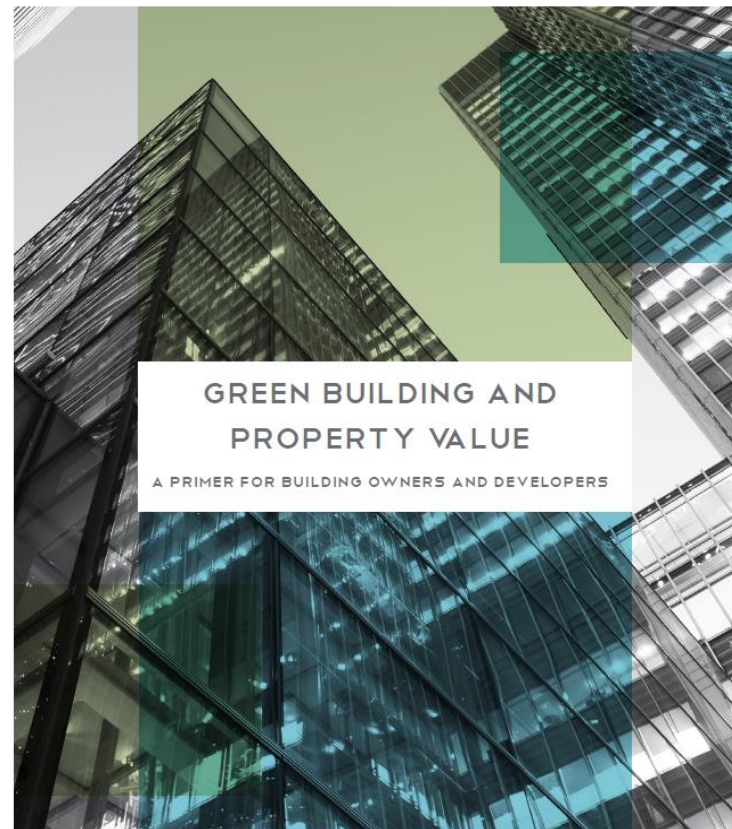


Recognition Of Energy **Costs** and Energy **Performance** in Real Property Valuation

Considerations and
Resources for Appraisers

Second Edition

May 2012



GREEN BUILDING AND PROPERTY VALUE

A PRIMER FOR BUILDING OWNERS AND DEVELOPERS



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Additional Resources

Further Reading:

- *Recognition of Energy Costs and Performance in Commercial Property Valuation* (www.imt.org/papers)
- *Value Beyond Cost Savings: How to Underwrite Sustainable Properties* (www.greenbuildingfc.com)
- *Commercial Energy Efficiency, Green Building & Property Value* (<http://www.imt.org/commercial-finance.html>)

Seminars:

- appraisalinstitute.org/education
- imt.org/seminars