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

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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.

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

AVERAGE PREMIUM

Rental Price  Sale Price  Occupancy Rate

Wiley et al 2010*
Fuerst & McAllister 2009/11
Jackson 2009
Pivo & Fischer 2010*
Eicholtz et al 2010*

Source: IMT
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
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.
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
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)
• \( \frac{\text{NOI}}{\text{Cap Rate}} = \text{Value} \)
• Energy efficiency boosts NOI
• $1 \text{ NOI} = $10-$20 in appraised value (depending on market)
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**

- **Borrower**: Borrower asks bank to include high-performance features in appraisal scope of work. Comes with data in hand.

- **Bank (Lending Officer)**: Write appropriate scope of work; looks for qualifications in bids.

- **Appraisal Company**: Qualified appraiser assigned.

- **Appraiser**: At meeting with appraiser, owner provides data on high performance features.

- **Bank/Investor Review**: High performance building documentation must meet underwriting guidelines.

- **Appraisal Delivered**: Appraisal report includes green considerations.
Strategy

Lenders

*Green Scope of Work,*
*Underwrite green assets*

Appraisers

*Attribute value to green investments*

Owners

*Work with lender and appraisers to capture value of green investments*
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
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
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
Additional Resources

Further Reading:

• *Recognition of Energy Costs and Performance in Commercial Property Valuation* ([www.imt.org/papers](http://www.imt.org/papers))

• *Value Beyond Cost Savings: How to Underwrite Sustainable Properties* ([www.greenbuildingfc.com](http://www.greenbuildingfc.com))


Seminars:

• [appraisalinstitute.org/education](http://appraisalinstitute.org/education)

• [imt.org/seminars](http://imt.org/seminars)