

Covering the Green Bases

Appraisers need the right tools to assess the value of high-performance buildings

By Jim Amarin

Understanding and properly documenting commercial properties' green features can assist mortgage brokers in making a strong case for the value of energy-efficient buildings when dealing with lenders. As high-performance features become more common in commercial buildings, it's increasingly important for brokers to understand how to effectively highlight those features on behalf of their clients.

It also is important for brokers and lenders to work with appraisers who have specific education and experience related to valuing commercial properties with energy-efficient features. Some excellent tools exist that can educate appraisers on the intricacies of valuing high-performance, or green, buildings.

One example of a free tool is the Appraisal Institute's Commercial Green and Energy-Efficient Addendum, a form intended to help analyze values of commercial buildings' energy-efficient features. The addendum also assists investors in communicating the construction features of the property that impact income, particularly for buildings that are not certified green by a formal certifying organization but do possess green features.

Often, buildings are constructed with green features, but blueprints and specifications can be misplaced or overlooked and special features are not reflected in the building's future valuations. The addendum can assist in understanding actual green features in a subject property and properly applying them in the valuation process.

Measuring impact

When valuing green buildings, a real estate appraiser's analysis must be supported by market data on the subject property that

helps explain why it stands out from its conventional peers. Because buildings with energy-efficient features are different from traditional ones, owners have to change not only how they design, build and market the properties, but also how they approach the financing and construction processes. Otherwise, these owners may pay for green — with certifications, capital improvements and marketing — and not fully realize the expected market benefits.

In addition to measuring the green value from rents, operational savings and market recognition at sale, building owners and developers also should understand the appraisal process. That means recognizing how green, high-performance characteristics and data can be used by appraisers to help fully maximize a property's valuation.

There are four primary components that drive value: revenue, occupancy, operating expenses and risk. These categories can be used to make the case for green appraisal value and should be considered by lenders both during appraisal and underwriting.

Market influence

It's important for brokers to work with lenders from a risk-management perspective and encourage the lender to assess energy-efficient building features in that light as well, because collateral risks may be reduced if green premiums on such properties are being paid in the marketplace. In addition, green-building features also guard against obsolescence and its associated risks.

Further, brokers can work with lenders to insist on well-informed opinions of value as they commission appraisals during a project's due-diligence phase. This process can be

enhanced by finding competent appraisers and developing scope-of-services requests that are comprehensive.

The more information provided to assist the appraiser, the smoother the process will be for all involved. A range of documentation, including capital improvements, engineering reports, tenant-retention rates and comparable sales can be used by appraisers to analyze market trends.

Attention should be paid to how green and energy-efficient features might influence absorption trends, rental rates, cap rates, credit quality of tenants, collection losses, tenant satisfaction, months vacant (or down-time between leases) and renewal probabilities of tenants.

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Appraisers will reconcile the primary approaches to valuation (income, cost and sales comparison), assigning relative weights to each based on quality and quantity of available data. If a recent sale of a high-performance building has occurred, for instance, the sales-comparison approach may take on great significance. Viewed in the context of an operating statement, green-building performance and value can show up across the board in quantifiable property metrics and favorable adjustments made during appraisal and underwriting.

Navigating the appraisal

Although it is the appraiser's responsibility to create the scope of work document, brokers can work with lenders to ensure that the scope of services adequately reflects the complexity of valuing a high-performance building. One way to accomplish that is to ensure that green elements are built into the scope of services provided to appraisers bidding on the assignment.

One element of the scope of services could include a requirement that the appraiser completes the Appraisal Institute's Commercial Green and Energy Efficient Addendum. The addendum can help commercial appraisers research and analyze market behavior on green and energy-efficiency issues.

It also is important to work with appraisers who have experience with high-performing assets and have the local market knowledge necessary to generate a credible opinion of value. Commercial mortgage brokers should ask whether the appraiser has received any specialized education on the valuation of sustainable buildings.

Later, during the review process, while the underwriter is analyzing the appraisal, a more detailed review and additional consultations with the owner's technical consultants may be necessary. Additionally, as much data as possible should be provided for the appraiser's use, which could include a market study with comparable properties, energy audits, construction or retrofit costs and other due diligence. Information on tenant demand

for green features is also useful, preferably including tenant-representative contact information.



The best way to ensure a credible opinion of value on a high-performance building is by working with a qualified appraiser and providing that individual with the necessary information to properly assess the value of the building's features. By working with lenders and appraisers, brokers can help to fully recognize the value of green features in today's high-efficiency buildings. ■