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# Shedding Light on Green Value

**A growing recognition of sustainability is impacting property values**

**COMMERCIAL MORTGAGE BROKERS** typically keep a close watch on property values in their markets, and one factor that has been gradually influencing the perception of a property’s value is its standing on energy efficiency and environmental sustainability. In fact, an ever-increasing body of research has recognized that green commercial buildings have a higher value for having stronger tenant retention and higher rents.

The Energy Star label and the U.S. Green Building Council’s Leadership in Energy and Environmental Design (LEED) rating are the most commonly cited green labels for this research — other labels also are available or under development. Each of these labels or rating systems indicates the building’s current state or, in Energy Star’s case, a building’s performance over the previous 12 months. Beyond rating a building’s current state, the perfect accompaniment would be to assess the potential for sustainability improvements.

So far, incorporating green attributes into a sales listing remains relatively new and uncommon. Although standards for appraising the sustainable attributes for a property have not yet been established, there are a few resources for commercial mortgage brokers and appraisers to refer to.

There are two main factors that are influencing the role of sustainability in commercial property transactions:

- 1. The research indicating higher value for green buildings**
- 2. Recent policies that mandate disclosure of energy performance** — typically in the form of an Energy Star score — by a property seller to the buyer, lessee or lender at the time of sale

Neither of these factors has transformed



Illustration: Dennis Wunsch

the market fully yet, but together they are providing some regulatory “push” and market “pull” that is gaining momentum.

When green appraisal standards are established, it’s logical to assume that pricing trends will be established: If you’re selling a more sustainable property, you’ll be asking for a higher price, and the opposite will be true for less sustainable properties. This assumption leads to the question: Which deals are going to be hot?

Expect savvy owners and investors to

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be looking for properties with the greatest potential to become more sustainable, thereby offering the chance to buy low and sell high. Assessing improvement opportunities therefore could become a major tool to evaluate a property's value and foresee some of the factors that a lender may consider when making a funding decision. Here are three options for assessing such improvement opportunities.

### LEED gap analysis

A LEED gap analysis serves an end goal rather than an assessment method. It measures a property's attributes versus LEED requirements, and describes what should be done to be eligible for a specified certification level — silver, gold or platinum.

Although LEED requirements are prescriptive, the gap analysis is not completely straightforward. A property may pass or fail on the prerequisite requirements, but beyond that there are many optional LEED points up for grabs, and the gap analysis can be looking to determine the best combination of these optional point-scoring attributes to meet LEED certification.

### ASHRAE energy audit

ASHRAE, a building technology society with more than 50,000 members worldwide, defines procedures for commercial-building

energy audits at three levels of rigor. A Level-1 energy audit provides energy-use analysis and a site walkthrough to identify retrofit and operational improvement opportunities at a typical cost between \$0.03 and \$0.05 per square foot.

A level-2 audit can assess opportunities more confidently, but at a price of as much as \$0.10 per square foot, it may be hard to justify as a tool to help sell a property. The same may apply to the even more expensive level-3 energy audit.

All the same, these audits can provide a high-level indication of improvement opportunities, although it should be noted that there can be a significant variation in how energy auditors will perform their audits and report their outcomes.

### Facility operations assessment

Developed by the nonprofit California Commissioning Collaborative, the facility operations assessment takes a standardized and prescriptive approach to the site assessment, incorporating a standard site-assessment checklist, reporting templates and other related documents into a free toolkit. The process is built around a list of the most-common operational opportunities found in commercial properties — from simple equipment-scheduling opportunities to more complex controls

and measures for heating, lighting and air conditioning (HVAC).

Each of these assessment approaches can provide an indication of the magnitude of improvement opportunities. Commercial mortgage brokers should advise their clients not only to look at the magnitude but also at the cost effectiveness for making improvements. For example, taking a building from an Energy Star score of 50 to 80 is great but may not be attractive if the return on investment is just 5 percent. Similarly, it may be good to know if improvements are coming — from operational improvements that can be implemented quickly or from major equipment retrofits that may prove lengthy and disruptive to tenants.

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Commercial mortgage brokers should keep in mind that the role of sustainability and energy efficiency in commercial property transactions is likely to grow. Higher building ratings will offer a competitive advantage, and this will potentially be reflected in higher sales prices. In addition, assessing improvement opportunities will provide an additional tool for commercial mortgage brokers to determine the value of a property — a point that also may be a concern for lenders. ●