

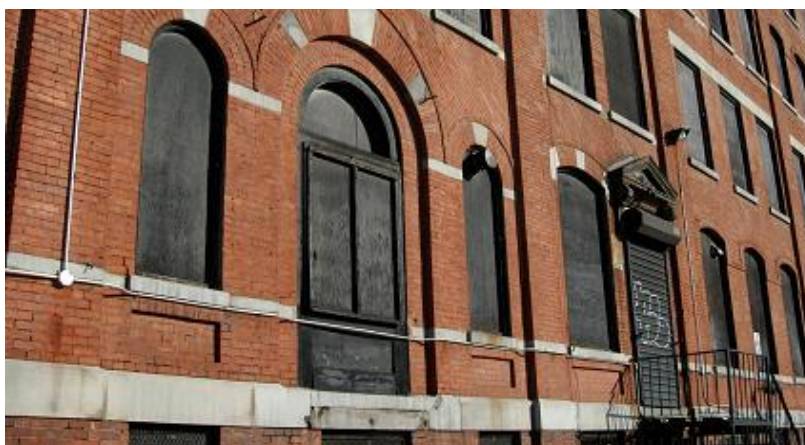
Energy Savvy Appraisal

Factoring Energy Efficiency into Appraisals

Many people are surprised to discover that the energy performance of a property has not traditionally factored into its valuation. Energy costs are the single largest operating expense for many commercial buildings. High-performance buildings reduce expenses for owners and occupants and provide a more comfortable place to live and work, which can increase their asset value. Enabling the accurate valuation of energy performance in buildings by appraisers rewards the owners of energy-efficient buildings, encourages new investments in energy-efficient building technologies and operating practices, and corrects a longstanding “blind spot” in property valuation techniques.

Background

Energy is one of the largest operating expenses for commercial buildings, yet practices and technologies that increase energy efficiency are not typically reflected in building appraisals. This “blind spot” in the market occurs because many commercial appraisers lack the training, guidelines and other basic resources they need to value energy efficiency. Giving them the tools they need to recognize and reward energy efficiency will spur building energy upgrades and reduce energy costs for businesses.



Factoring energy efficiency into the commercial appraisal process rewards the owners of energy-efficient buildings with higher property values and makes it easier to finance efficiency improvements to buildings.

Benefits

Spur Energy-Efficiency Improvements. Real estate owners make investments to increase the value of their assets. Helping the appraisal industry accurately value energy efficiency will reward the owners of efficient buildings with higher property values, motivating greater levels of investment in energy-efficient technologies and practices.

Encourage Energy Efficiency Lending. Energy-efficient buildings are less risky to finance because they use less energy and save money, contributing to the owner’s ability to pay his or her loan. Valuing energy efficiency in appraisals enables real estate lenders to fully factor energy efficiency into underwriting.

Attract and Retain Top Tenants. High-performing companies hire high-performing employees and want to work in high-performing buildings. Helping appraisers recognize in their appraisals that efficient buildings are increasing in demand and value will help building owners secure the financing they need to provide the high performing buildings that top tenants demand.

Add Value to Communities. Factoring energy efficiency in appraisals may increase the sale price of energy-efficient buildings, helping increase the value and competitiveness of commercial properties and businesses in local communities.

Getting Started

Local jurisdictions cannot directly change appraisal standards, which are largely set by the private sector at the national level. However, they can exert their influence by initiating low-cost programs and partnerships to advance appraisal practices that value energy efficiency.

Require Energy Efficiency Training for City Appraisers.

Local jurisdictions can require that appraisals they commission fully account for energy costs in accordance with appraisal guidelines developed by the Institute for Market Transformation.¹

Provide Technical Assistance to Industry.

Building owners with energy-efficient buildings may have a difficult time communicating the benefits of efficiency to appraisers. Local jurisdictions can help by creating an informative appendix to attach to appraisals with local evidence about how energy efficiency affects asset value, including case studies, energy cost data, and statistics on the market penetration of energy-efficient buildings. Jurisdictions can also provide free technical consulting to building owners and developers to help them frame the benefits of the energy efficiency of a particular building in terms that are familiar and persuasive to appraisers.

Encourage the Addition of Energy Efficiency Training Courses to Appraiser Licensing Requirements.

Local jurisdictions should work with state officials to integrate energy efficiency training in continuing education requirements for appraisers. In addition to minimum training requirements established at the federal level, each state regulates licensing requirements and approves continuing education trainings.

Work with Local and National Organizations to Facilitate Energy Efficiency Training Courses.

Local jurisdictions can help facilitate or subsidize energy efficiency training courses for appraisers by working with local training providers. Securing approval for continuing education credits is key to attracting appraisers to seminars – partner with local education providers who routinely secure such approval for their seminars. These providers may include local chapters of national organizations such as the Appraisal Institute, or local real estate schools, community colleges or energy efficiency experts. Jurisdictions can provide resources for online seminars or in-person trainings, and engage with local lending associations that employ appraisers to help market trainings.

Existing Policies or Programs

U.S. Department of Energy: Program on Energy Performance and Commercial Appraisals

http://apps1.eere.energy.gov/news/progress_alerts.cfm/pa_id=548

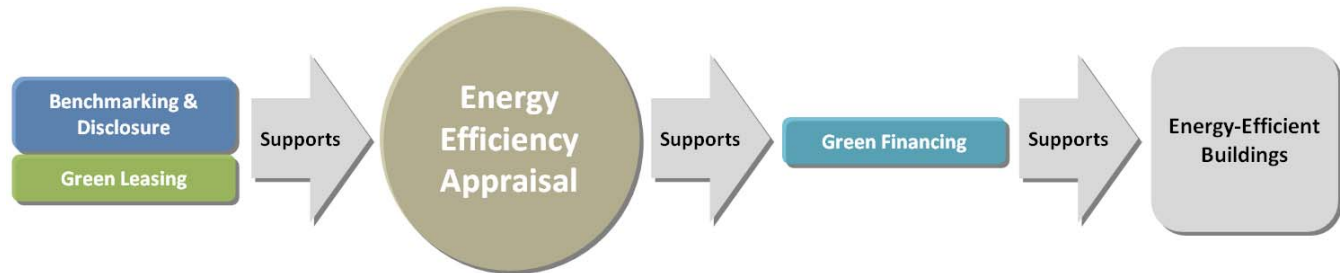
- **Details:** In June 2011, the U.S. Department of Energy announced a partnership with the Appraisal Foundation to help overcome informational barriers to the accurate valuation of energy performance in appraisals. Part of the President's *Better Buildings Initiative*, the program will develop new tools related to valuing green buildings based on the *Uniform Standards of Professional Appraisal Practice*, the accepted standard for U.S. appraisals. It will work to ensure that utility bill savings that come with building efficiency improvements are appropriately figured into a building's overall value.

For Access to the Commercial Buildings Toolkit visit <http://www.icleiusa.org/commercialenergypolicytoolkit>

For Further Information on Local Sustainability visit www.icleiusa.org & www.imt.org

Complementary Policies

Complementary Policy Landscape for Energy Efficiency Appraisal Practices



Complementary policies can make energy efficiency appraisal practices more effective.

- **Benchmarking and disclosure policies** add transparency to energy cost and consumption data and provide comparative assessments of building energy performance, directly supporting efforts to integrate energy efficiency value into appraisal practices.
- **Green leasing** practices may help owners capitalize energy savings that are otherwise captured entirely by tenants.

References

1. "Recognition of Energy Costs and Energy Performance in Commercial Property Valuation: Recommendations and Guidelines for Appraisers". Institute for Market Transformation. Dec. 2000.
http://www.imt.org/files/Appraisal_Guidelines.pdf

Additional Resources

- Institute for Market Transformation. Resources for Real Estate Professionals.
<http://www.imt.org/property-valuation-background.html>
- U.S. Dept. of Energy Commercial Appraisal Program.
http://apps1.eere.energy.gov/news/progress_alerts.cfm/pa_id=548
- Appraisal Foundation.
<https://www.asc.gov/Home.aspx>
- Appraisal Institute.
<https://www.appraisalinstitute.org>
- ASTM E2797-11: Standard Practice for Building Energy Performance Assessment for a Building Involved in a Real Estate Transaction.
<http://www.astm.org/Standards/E2797.htm>