

Introduction and Background

Appraisers and users of appraisal services continue to face disconnects in communication regarding green and high-performing properties. The key challenge in sharing information is this: How does the property owner/client *inform* without creating the perception that they are trying to *influence* the appraiser? Simply put, clients should provide relevant, substantiated data that documents and details the strategies undertaken to upgrade and improve building performance, and an explanation of the outcomes these strategies have already realized or are expected to achieve. Specifically, clients must provide data with sufficient context to illustrate to an appraiser why it is relevant, regardless of whether the appraiser has detailed knowledge of green buildings, energy-efficient equipment, or other building attributes.

The Appraisal Foundation (TAF) recently released [Valuation Advisory #9: Valuation of Green and High-Performance Property: Commercial, Multi-family, and Institutional Properties](#). This advisory comes in response to the increasing importance of green asset valuation to CRE leaders. It is the third of three sustainability-related advisories developed by TAF, and addresses specific issues related to high-performance properties with the intent of identifying the actions, skills, and knowledge necessary to help appraisers competently value buildings with green or high-performance attributes.

Following on the guidance from TAF, the DOE Better Buildings Alliance developed this document aimed at addressing market-related strategies that increase the implementation of energy efficiency technologies in commercial buildings. It was developed after reviewing a series of recent appraisals on high-performance properties owned by an institutional investment firm and builds upon the guidance for owners and sample scope of work language for appraisers that the team previously created. It offers examples of the types of high-performance information that owners can provide to appraisers and proposes specific examples of where and how this high-performance building information can be incorporated into an appraisal. We encourage you to work with your valuation team and key stakeholders to review and utilize these resources as appropriate to advance industry practices in this area.

Additional Resources

Those who are interested in learning more about the appraisal of green and high-performance properties and resources to assist in the process should visit the [Appraisal Toolkit](#) assembled by DOE. The resources within the toolkit:

- ▶ help simplify the information gathering processes;
- ▶ provide industry background and context for owners, lenders, and appraisers; and
- ▶ link to training opportunities to help appraisers competently appraise high-performance commercial buildings and building attributes.

Through a memorandum of understanding with DOE, the Appraisal Foundation (TAF) has developed three valuation advisories to provide guidance on the appraisal of green and high-performance property:

- ▶ [Valuation Advisory #6: Valuation of Green and High-Performance Property: Background and Core Competency](#)
- ▶ [Valuation Advisory #7: Valuation of Green and High-Performance Property: 1-4 Unit Residential](#)
- ▶ [Valuation Advisory #9: Valuation of Green and High-Performance Property: Commercial, Multi-family, and Institutional Properties](#)

HIGH PERFORMANCE PROPERTY INFORMATION AND RESOURCES

The following are just a few examples and descriptions of potential documents, data, or other information pertaining to high-performing properties that owners and users of appraisal services can provide to appraisers for consideration in the appraisal report.

1. Sustainability Profile

A thorough sustainability profile would typically include a property overview that includes a brief physical description of the property, its location and “positioning” in its market, a summary of the owner’s longer-term vision for the asset, and a summary of the property’s green building certification history (e.g., LEED, ENERGY STAR®). This profile can also cite specific energy conservation measures undertaken at the property, explain strategies employed to improve energy efficiency, indoor air quality, and water efficiency, and offer specific data related to utility performance and the potential pursuit or achievement of green certifications. This information can be used by appraisers in various sections of an appraisal report, including, but not limited to: the Executive Summary, Improvements Description, Market Analysis, Sales Comparison Approach, and Income Approach.

2. Property Assessment or Energy Audit Report

Providing more detail than the overview in a Sustainability Profile, this is a comprehensive report – typically provided by a third-party engineering or consulting firm for loan applications, as part of a sustainability program, or for compliance purposes – that helps explain the prior condition and characteristics of an existing building and offers recommendations for improving its energy/utility and sustainability performance. Specific details usually include comprehensive descriptions of building equipment, systems, existing conditions, and comprehensive plans and recommendations for improving building operations, equipment performance, and utility consumption. These reports often provide a baseline of building performance that the appraiser can use to analyze current performance and develop projections for future performance. Sections of the report where appraisers can use these data include, but are not limited to: Executive Summary, Improvements Description, and Income Approach.

3. LEED Scorecard¹

If the subject property is pursuing LEED certification, or has pursued or achieved LEED certification in the past, a LEED Scorecard should be available, and should be provided to the appraiser by the owner/client. In accordance with the LEED certification process, the scorecard will detail the actions taken and credits achieved (or planned) in the following categories: Sustainable Site, Water Efficiency, Energy & Atmosphere, Materials & Resources, Indoor Environmental Quality, Innovation, and Regional Priority. Specific actions, activities, and performance characteristics will be outlined in detail in the Scorecard. USGBC’s intensive review and validation process for all LEED applications and certifications means that the scorecard serves as a verifiable, third-party source of documentation describing the green and high-performance attributes of the building. The information included in a Scorecard can be used by appraisers in a number of report sections, including, but not limited to: the Executive Summary, Improvements Description, Sales Comparison Approach, and Income Approach.

4. ENERGY STAR Statement of Energy Performance (SEP)¹

The SEP can be generated for any property benchmarked in ENERGY STAR® Portfolio Manager® and its contents are relatively straightforward. The SEP documents the energy performance of a building over a 12-month period and provides general building information such as square footage, building age, and location. Most important for comparative purposes, it displays the Source and Site Energy Use Intensity (energy use per gross square foot), a direct comparison of the property’s energy consumption to the national average of its peers, and its ENERGY STAR Score, which facilitates easy comparison to properties with the same core use. Further, if the property has achieved ENERGY STAR certification, the information within the SEP will have been reviewed and certified by a Registered Architect or Professional Engineer, who can be deemed a third-party, independent energy expert. The SEP performance information is useful for appraisers when determining operating expenses for use in the Income Approach, and certification information can be included in the Letter of Transmittal and Executive Summary.

¹ LEED and ENERGY STAR are listed merely as examples of the most prevalent certifications. Owners that pursue or achieve NGBS, Green Globes, BOMA 360, or other green certifications for their properties should provide similar documentation.

5. Other Resources

Property owners have numerous options for providing green and high-performance information to appraisers. The following are additional examples that could be useful for an appraiser, provided that the owner provides sufficient context to explain why the information has been provided.

- ▶ Building plans and construction specifications
- ▶ Energy modeling and commissioning reports
- ▶ Tenant leases (to determine which party benefits from the energy-efficient features and recognize whether tenant improvements and space planning provide green features and potential savings to the landlord and/or tenant)
- ▶ Detailed information on property tax rebates or discounts (including public sector, private sector, or utility) earned as a result of green or high-performance activities at the property
- ▶ Results from tenant satisfaction surveys, particularly questions and responses related to green or high-performance strategies

All of these materials, when provided with relevant context, can assist appraisers in identifying potential impacts of green and high-performance equipment, activities, and strategies on the subject property's income, marketability, and – potentially – value.

TREATMENT OF ENERGY AND HIGH-PERFORMANCE DATA IN REPORT SECTIONS

There are several appraisal report sections where references to the resources and high-performance information above can be easily and appropriately incorporated into an appraisal report. Including this information can improve the reader's understanding of the property's unique characteristics and better explain what implications these characteristics may have on the opinion of value. Here, we offer suggestions for how an appraiser might incorporate high-performance property information into specific sections of an appraisal report.

1. LETTER OF TRANSMITTAL

The Letter of Transmittal is the first location in an appraisal report where it would be appropriate to note that a building holds a green building certification or has pursued high-performance strategies. Such information can be identified in any of the resources highlighted above. It is common practice to include the building name and address and any specific identifying features when referencing the subject property in the letter of transmittal; it would be appropriate and very easy to add a line stating, "LEED Gold certified in 2017" and/or "ENERGY STAR certified in 2018" in the description of the property being appraised. This single descriptive line adds specificity and assists the reader in better understanding the context in which the subject exists and will be considered in the analyses to follow.

2. EXECUTIVE SUMMARY

The Executive Summary of an appraisal typically summarizes the property's physical characteristics and report findings. This summary offers another opportunity for the appraiser to mention whether the subject property holds a high-performance certification or is qualified to do so. Similar to the Letter of Transmittal, a simple solution would be to add verbiage indicating the subject was awarded a certification in a specific year. A single descriptive line to this effect would be appropriate and would provide the reader with a better understanding of the property's positioning in its market.

3. SCOPE OF WORK

While it is the appraiser's ultimate right and responsibility to decide an appropriate Scope of Work for an assignment, a client may request certain aspects of their property be considered in the valuation analyses. As long as there is no attempt to influence either the appraiser or the report outcomes, the client is well within their rights to make such a request. The DOE team has developed sample scope of work clauses in the [Guidance for Owners](#) that provide detailed guidance and template language that can be used by owners or appraisers. One of the most important

distinctions to make in the Scope of Work is the utilization of the terms “analysis”, “evaluation”, and “analyze” instead of “state” in the requirements for the assignment. This distinction is critical because the Uniform Standards of Professional Appraisal Practice (USPAP) require treatment and discussion of relevant factors beyond simply stating facts in an appraisal assignment.²

USPAP supports a client’s right to require additional analyses beyond what may be provided in a “traditional” appraisal report. If an owner provides supplemental documentation regarding properties with physical characteristics more complex than traditional construction, then appraisers should consider these additional data and factors in the report analyses. Incorporating this terminology in the Scope of Work allows the client to require the appraiser to analyze the information provided and articulate within the appraisal report the implications of the strategies undertaken to achieve high-performance in the subject property relative to the market and market value. In other words, merely stating the property holds LEED or ENERGY STAR certifications with no accompanying discussion or analyses as to what impact those certifications and the strategies undertaken to achieve them may (or may not) have on market positioning or market value does not meet assignment requirements.

4. IMPROVEMENTS DESCRIPTION

The Improvements Description should reflect both the basic building characteristics as well as any unique features, particularly if those features might impact other aspects of the valuation process. An accurate accounting of a building’s physical characteristics is imperative to establish market positioning and an accurate basis for comparison to its competitive set. These considerations factor heavily into an appraiser’s assessment of both its marketability and ultimately its market value. A Sustainability Profile, Property Assessment/Audit, LEED Scorecard, or similar documents would all include relevant data on specific building characteristics and strategies undertaken to improve the performance of the property that should be detailed in the report. For example:

- ▶ Improvements in building energy systems or efficient building operation policies could have positive impacts on utility and maintenance cost projections. The potential outcomes of these types of improvements (lower consumption and thus, lower costs) may be pertinent in the Income Approach and possibly Sales Comparison Approach relative to marketability and should be discussed accordingly.
- ▶ Improvements in HVAC and ventilation systems can result in improved indoor air quality, better tenant retention, and potentially improved marketability to other tenants.³ These factors should be considered in both the Sales Comparison and Income Approaches.

5. MARKET ANALYSIS

Rather than rely solely on a pre-prepared or “canned” market analysis, the appraiser should add or include specific supply/demand data for high-performing buildings in the subject market. [ENERGY STAR](#), the [Building Performance Database](#), [CBRE](#), and [ULI](#) are examples of resources providing relevant data at market and national levels that can be extrapolated and used to analyze the subject property’s market position. Further, if the subject has achieved a green building certification, an appraiser should evaluate how the certification may impact a building’s positioning and relative marketability in comparison to its peers. A LEED Scorecard (or similar), ENERGY STAR SEP, Property Assessment/Audit, and/or Sustainability Profile all contain data that provides relevant information to assist an appraiser in identifying appropriate peer comparables. Most importantly, the appraiser should *analyze* the relevance of the subject’s high-performing characteristics and how those factors may or may not influence its marketability and comparability to its competitive set in order to arrive at informed conclusions regarding its overall position in the market.

Appropriate analyses, accompanied by the resulting conclusions, would incorporate factors including, but not limited to:

- ▶ Observations and analyses of high-performance and traditional building trends in the subject market

² Advisory Opinion 1, 2018-19 states: *Analysis of sales, offerings, etc. ... requires more than just stating the known facts about the transaction. Each pertinent factor should be examined individually, methodically, and in detail, to ascertain whether it has relevance to, or potential impact on, the transaction and potentially other assignment results, including the opinion of market value (if applicable). ... Some clients might also require analyses beyond what is required by USPAP.*

³https://betterbuildingsolutioncenter.energy.gov/sites/default/files/attachments/Energy%20Efficiency%20and%20Financial%20Performance_12_2015.pdf

-
- ▶ The absorption of high-performing properties versus traditional stock
 - ▶ Zoning trends that might impact supply of high-performing buildings
 - ▶ Supply of high-performing buildings versus traditional stock
 - ▶ Indicated demand for high-performing buildings versus traditional stock (occupancy statistics)
 - ▶ How rents in high-performing buildings compare to traditional buildings
 - ▶ Available absorption data on high-performing compared to traditional stock

6. HIGHEST AND BEST USE

The highest and best use analysis in an appraisal is arguably the most critical discussion in any valuation assignment and is fundamental to any value conclusion. With a growing number of municipalities adopting energy benchmarking and disclosure ordinances, the resulting increased transparency around property performance has heightened awareness of not only the costs, but also the benefits of more energy-efficient high-performing buildings. As a result, it is conceivable that *in certain markets* the ability of a property to achieve its “highest value” can only be accomplished if it is a high-performing, energy-efficient property.

It is incumbent upon the appraiser to consider market conditions in the subject market. The [ENERGY STAR](#), [Building Performance Database](#), [CBRE](#), and [ULI](#) resources noted above could provide valuable insights into this analysis and assist in determining whether a subject property can achieve maximum productivity if it is – or is not – a high-performing building. If a property is a high-performing asset as validated through a green building certification or via documentation provided, then these factors should be considered in the appraiser’s determination of Highest and Best Use.

7. THE THREE APPROACHES TO VALUE

As in other sections of the appraisal report, information about a building’s energy-efficient and other high-performance characteristics should be considered with regard to any potential impact on market value. Though the treatment and consideration of green and high-performance data varies, these factors remain relevant across the three approaches to value. Failure to analyze this information appropriately could preclude an appraiser from providing an informed, competent, and unbiased estimate of market value

Relative to the three approaches, we suggest consideration of the following questions and factors.

- ▶ **Cost Approach:** Would the physical characteristics of the subject require different types of analyses than traditional construction because of its unique features? If so, what impact would those features have on considerations such as external obsolescence? Appraisers should consider how energy-efficient or other high-performance strategies pursued in constructing the building will impact replacement costs and how these costs rank in comparison to peer properties.
- ▶ **Sales Comparison Approach:** Appraisers should refer to the documents provided by the client and then ask: How should the subject’s unique characteristics be assessed in comparison to its peers? Should consideration be given to features that last longer and are less expensive to maintain? Perhaps its adaptability through more flexible floor plans? Its Walk Score? High-performance certifications? What about economic benefits from energy efficiency (lower energy costs for tenants and/or landlord)? Should the subject’s standing relative to the national average for energy costs in comparable buildings be used as an economic unit of comparison? Proximity to public transportation? These are just a few of the considerations that might be relevant when appraising a high-performing property and estimating its potential value. Some units of comparison that are appropriate for a high-performing building may differ from those used for a traditional building, and it is the appraiser’s responsibility to determine the most appropriate units of comparison to arrive at an accurate estimate of value that reflects competence and avoids bias.
- ▶ **Income Approach:** Depending upon findings in other sections of the report, will a high-performing property be considered more or less marketable? More or less risky relative to its operational and overall risk profiles in comparison to its competition? Close review of a LEED Scorecard, Property Assessment/Audit, ENERGY STAR SEP, and other documentation could provide a blueprint for appraisers to track and assess broader implications and outcomes of the actions taken. Equipment upgrades and ongoing commissioning could have direct (and likely positive) impacts on property operations, utility costs, and maintenance expenses. Utility cost savings achieved to date (and projected for the future) should be considered relative to operating

expense projections and compared to operational risk profiles of the building's competitive set. Depending upon the strategies undertaken, improved tenant satisfaction from better air quality and thermal comfort could potentially impact tenant attraction and retention, downtime between leases, and renewal probabilities. All of these factors can impact revenue, expense, and occupancy projections, as well as assumptions regarding operational and overall property risk assessments.

Although the potential positive outcomes noted above are not guaranteed, there is ample peer-reviewed, empirical evidence to document these or similar outcomes in high-performance buildings. If an appraiser has data available to them, it is their responsibility to provide competent, unbiased analyses of the data's potential impact upon property performance and market value.

NEXT STEPS

This document presents just a few examples of how client-provided and other supplemental data for high-performance buildings can be incorporated into a valuation assignment. The intent is not to dictate how this material should be utilized, but facilitate development of competent, unbiased appraisals that comprehensively analyze and assess the potential impact of green and high-performance building attributes on market value. The types of data and documentation available for high-performing buildings are often new to appraisers and can be more complex and varied than data on traditionally constructed buildings. These data require objective and thorough discussion and analyses to ascertain what role they play in the valuation process and potentially a property's market value.

To learn more and continue working toward transparent collaboration between clients and appraisers, we recommend the following next steps.

For appraisers:

- ▶ Read Valuation Advisories 6, 7, and 9 from the [Appraisal Foundation](#)
- ▶ Attend training such as [Energy Matters!](#) to develop greater understanding of green and high-performance buildings
- ▶ Follow the suggestions above, and refer to [Sample SOW language](#) within the [DOE Appraisal Toolkit](#)

For owners and those who order appraisals:

- ▶ Adjust your SOW with appraisal management companies and appraisers to incorporate sample clauses like those featured in our Guidance for Owners
- ▶ Ensure that engagement letters require incorporation and analyses of high-performance building data and their potential implications on market value
- ▶ Follow our Guidance for Owners to provide vendors with relevant green building information and ensure that you are giving sufficient context for the documentation provided
- ▶ Review your appraisals to ensure that green building information is being not only stated, but analyzed within the report
- ▶ Collaborate with industry organization working groups (e.g., NCREIF, NAREIM) to influence and generate momentum for change