

## Principal Real Estate Investors Partners with DOE to Enhance Appraisal Practices

Commercial appraisers can play a critical role in advancing energy efficiency: by appropriately valuing energy performance and high-performance building features in the appraisal process, and by providing accurate information for real estate investors seeking to increase value through energy-efficient strategies. Principal participated in the U.S. Department of Energy's (DOE) appraisal working group to help DOE understand and address energy-related challenges in the commercial real estate appraisal process.

There has been a historical disconnect between building developers, owners, and investors when attempting to identify the best method of analyzing an investment in high-performance building features or certifications. This challenge is often reflected in the appraisal process for commercial real estate, where a lack of information exchange between the involved parties can lead to missed opportunities and valuations that do not incorporate the costs and benefits of energy efficiency effectively.

The appraisal working group was a collaboration between DOE, The Appraisal Foundation, Appraisal Institute, appraisal professionals specializing in green and high-performance buildings, and commercial real estate sustainability leaders, including Principal.

## New Resources

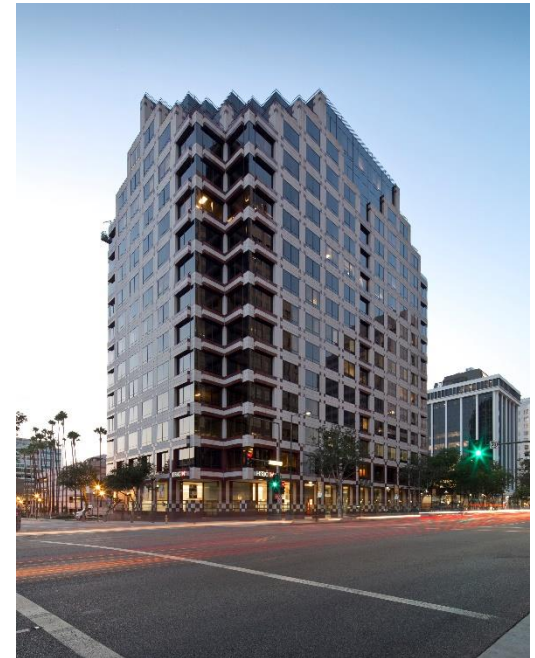
The working group identified several key junctures in the appraisal process where communications between stakeholders were failing to address energy-related information. Together, the group developed two key supporting resources that Principal integrated into their valuation practices.

### ▶ [Sample Scope of Work Language for Appraisers Valuing High-Performance and Energy-Efficient Buildings](#)

Background information and sample language to help streamline efforts and encourage the pursuit of high-performance appraisals.

### ▶ [Guidance for Owners: Ordering Appraisals of High-Performance and Energy-Efficient Buildings](#)

Step-by-step guidance for building owners for ordering a high-performance appraisal.



*North Brand, one of Principal's office assets in Glendale, CA.*

*Looking for more information about the appraisal and valuation of high-performance buildings? Visit the [Appraisal Toolkit](#) assembled by DOE and the working group.*

The resources within the toolkit:

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

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*“By revising our scope of work with Altus – and by association, the professionals that appraise our assets – we are changing the way energy and high-performance building information is exchanged and incorporated into commercial appraisals. This will allow for more accurate and comprehensive assessment of our assets’ performance, and show that our responsible property investing practices are paying off.”*

— Tasha Gould, MAI, Appraisal, Principal Real Estate Investors

## Taking Action

Participation in the working group and the overall success of the high-performance appraisal initiative required a great deal of internal support from Principal. The firm’s [Pillars of Responsible Property Investing](#) initiative provides the framework for Principal to pursue sustainable investment practices and gain recognition as a leader in the commercial real estate industry. Leveraging these Pillars, Senior Director of Operations & Sustainability Jennifer McConkey was able to engage her internal valuation team on the efforts of the working group. They also involved Altus Group, the appraisal management company that handles a large portion of Principal’s asset appraisals.

Appraisal management companies act as liaisons between real estate owners and appraisers. With the newly-created Guidance for Owners and Sample Scope of Work in hand, Principal developed customized language and specific energy and high-performance clauses within their scope of work with Altus. These clauses will in turn be applied to the scopes of work of the appraisals Altus orders on Principal’s behalf. The revised scope of work now explicitly requires appraisers have training or experience in appraising

high-performance buildings, and ensures that energy-related information is shared among stakeholders and included in the “opinion of value” appraisers provide in their reports.

## Next Steps

The first round of appraisals using the revised scope of work are underway. Principal intends to evaluate the outcome of the updated approach, adjust the process as necessary, and showcase the results of their efforts in future communications. When considering revised appraisal practices at your own firm, keep in mind these best practices:

- ▶ **Update Scope of Work**  
The Appraisal Scope of Work is a critical intervention point where terms of the appraisal engagement are dictated, and can be adjusted to ensure that energy efficiency and high-performance features are analyzed appropriately. DOE’s resources provide examples of language.
- ▶ **Be proactive in providing material information to Appraisers**  
When a building is being valued, property managers and building ownership should give relevant and material information to appraisal and valuation staff. Examples include: ENERGY STAR® Score, [Building Energy Asset Score](#), energy modeling reports, etc.
- ▶ **Train internal appraisers and request training for external appraisers**  
Appraisers may lack in-depth training and knowledge of how energy consumption, energy-efficient equipment, and other high-performance building features can impact the value of a property, its risk profile, and the potential for market obsolescence. Links to relevant trainings including the DOE-created [Energy Matters!](#) curriculum can be found in the [Appraisal Toolkit](#).
- ▶ **Develop reporting consistency**  
In addition to formalized training, set expectations for appraisers to be capable of utilizing the [Appraisal Institute’s Commercial Green and Energy-Efficient Addendum](#), the Appraisal Practices Board’s (APB) [Valuation Advisory #6](#), and the APB’s [upcoming Valuation Advisory](#) regarding high-performance commercial properties. Developing a working knowledge of these resources will help ensure that appraisers’ reports acknowledge high-performance building features and certifications and explain the relationship between the subject properties’ energy performance and certification status as it pertains to comparable properties.