

GOING 'green'

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and **sound environmental policies**

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Green or sustainable buildings are ones that use resources more efficiently, generally have a smaller carbon footprint, and offer a level of cost effectiveness that is superior to conventional buildings. Green buildings confer both financial and social benefits directly to their stakeholders and indirectly to the general public.

While the initial driver for going green was social concern, in recent years, a ‘business case’ has emerged for sustainable construction, particularly for commercial building. The increasingly accepted notion that carbon emissions must be curtailed has also provided an impetus for the development of buildings that conserve energy. Further, additional benefits are being identified and a growing number of studies are showing that sustainable buildings increase the well-being of their occupants and provide a number of positive outcomes that benefit society in general.

As a result, the market for green buildings is increasing. A growing number of property developers are capitalizing on this trend, achieving higher visibility and positive market exposure

in the process. The public sector is becoming involved by providing a number of incentives aimed at stimulating the construction of green buildings, including subsidies and credits for green construction and retrofits that enhance environmental sustainability. Governments are also moving to change building codes accordingly, although that may not be essential if a strong economic argument can be made. If so, going green will become the norm. While new green construction involves integrated design from the ground up, buildings can be ‘greened’ through such improvements as green roofs, energy efficient lighting, high-efficiency windows, and smart switches, to name but a few.

The term ‘green value’ includes both tangible and intangible benefits that may accrue to a sustainable building project. Hence, the green value definition goes far beyond our conventional concept of property value or market value. Quantifying the efficiencies generated by green buildings has been undertaken by a number of organizations in a variety of ways. To date, the best information has been produced with respect to commercial buildings.

While the debate regarding the impact of building green on market value continues, some studies have shown that green buildings reduce operating costs, increase property values, and improve the return on investment significantly. Further, these data suggest that green buildings achieve higher occupancy and rent ratios. However, some data indicate that green construction comes

at a premium and that savings may be marginal in some cases.

A number of organizations have established systems to rate and track green buildings. Perhaps the best known in North America is the LEED Rating System. Leadership in Energy and Environmental Design (LEED) is a building rating system associated with the US Green Building Council. The Canadian version of LEED for new construction and major renovations was introduced in 2004 and, in 2006, a rating system for commercial interiors followed. The LEED system includes several levels ranging from basic certification through Silver, Gold, and Platinum certified buildings. The latter is reserved for buildings that have 70% less impact on the environment than non-green properties. The Building Owners and Managers Association (BOMA) also certifies existing buildings under its Green Certification Program. BOMA certification has a wide span, given the number of existing buildings that are being retrofitted on an ongoing basis each year.

The feasibility of retrofitting a building so that it qualifies as ‘green’ requires a careful assessment of the costs and the future savings achieved. Given that green buildings are more energy efficient generally, it follows that they can reduce operating and maintenance expenses for both landlords and tenants in the case of rental properties. Further, green buildings are becoming increasingly desirable, with a higher degree of social acceptability resulting in increased marketability and absorption rates. As a result, increased net rents can be achieved by owners and investors and, potentially, there can be more favourable rents for tenants — a win-win situation.

In the case of office buildings, some studies are showing that labour productivity gains have been achieved as well. Nonetheless, there are many unanswered questions to date, since there is a lack

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of data given the newness of green buildings. We have yet to learn conclusively if green buildings will rent more quickly, whether tenants will stay longer, and whether the cost of tenant improvements will be decreased through sustainability.

The valuation of green buildings is in its infancy, but the trend is growing and so will the need for appraisers who are knowledgeable and can provide value opinions in this area. The first challenge in valuing green buildings is the dearth of reliable data. Comparables are hard to come by and, in their absence, placing a number on the contributory value of ‘green’ improvements is challenging. Making adjustments for improvements in a property can be difficult, even with good information and more so when green features are being taken into account. One of the problems is that ‘green’ elements have been loosely defined to date. As such, data do not identify these elements clearly. Consequently, appraisers will need to be especially careful when undertaking assignments involving green building to ensure that values are arrived at through analysis that is well supported by the data. This is what will make the valuation of green properties more challenging, especially at the outset while supporting data are harder to find.

As green valuation becomes increasingly a part of appraisal practice, appraisers will need to maintain their knowledge of this specialty area through continuing professional development. The Institute’s English-language education provider, the University of British Columbia (UBC) has developed

two mini-courses on green issues in real estate. *CPD 125 – Green Value – Valuing Sustainable Commercial Buildings* is available now. The course focuses on commercial buildings and provides an overview of real property and sustainable development along with the issues that must be taken into consideration when appraising such properties.

A second course, *CPD 126 – Getting to Green: Energy Efficient and Sustainable Housing* focuses specifically on residential concerns.

These two courses represent a start and no doubt other green value courses will follow as UBC and the Institute strive to develop appropriate CPD offerings to meet member needs.

As the demand for green valuation and related advisory services grows, the Institute will work increasingly on assisting members to develop the necessary skills and knowledge required to take on such assignments. It is expected that key methodologies such as discounted cash flow will be adapted for the valuation of green buildings. Further, appraisers will need to advise their clients about the impact of green elements on building values, as well as the importance of certification under LEED or the BOMA programs. Future appraisal reports may include a section on the sustainability of the subject property.

In recent months, the Institute has held meetings with the OEAQ and representatives from the Department of Public Works and Government Services, with the aim of working towards the development of guidelines for the

valuation of green buildings. These guidelines will be a starting point for appraisers who wish to take on assignments that involve green buildings or buildings that are being improved to make them more environmentally sustainable. The guidelines will be made available to AIC members once they are completed.

The Institute is also actively monitoring international trends in this area. Last year, AIC signed on to the *Vancouver Valuation Accord*, a Canadian initiative aimed at raising awareness of green valuation and developing best practices in this area. Recently, a panel was established to review papers on green valuation. The Institute has been invited to participate.

In the area of communications, much work has to be done to raise awareness of green buildings and their importance. In this respect, through its communications and marketing program, AIC will inform stakeholders about the merits that incorporating green elements brings to buildings. Efforts will be made to work with other stakeholders to improve the collection of data associated with green buildings to facilitate the appraisal of these properties. AIC will also work with its strategic partners in this respect and encourage the sharing of information for the benefit of all.

Environmental awareness and the need to act decisively to improve our environment is a growing trend around the world. Green buildings contribute in a major way towards improving the environment and sustainable development has taken on new meaning, as both regulators and entrepreneurs move to ensure that buildings, new and old, are made ‘green.’ The value-added of going green is tangible and appraisers will be called upon to quantify it. So be informed, be aware and be prepared for a green future in valuation.

Go to www.realestate.ubc.ca/cpd and read more about CPD 125 and 126. 🏠

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