



## Institute for Market Transformation

Getting More Bang for your Buck

Developing and Using Midstream  
Market Relationships



## Institute for Market Transformation

*Mission: promote energy efficiency and environmental protection in the U.S. and abroad*

### Projects Include -

Promotion of energy efficiency in California's long term healthcare sector

Development of building energy codes in Russia and China

Research on executive decision-makers [[www.imt.org](http://www.imt.org)]

# Midstream Market Relationships



Building Owner/Seller



*Appraiser, Lender, &  
Broker*



New Owner/Buyer

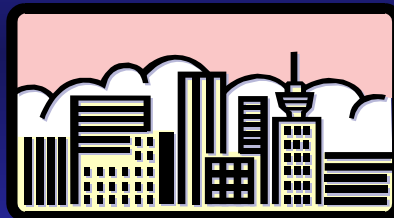
Current Market

Property Value &  
Energy

Midstream Market

Leveraging Existing  
Programs

## OVERVIEW



## Goal: Improve the energy performance of buildings

- provide market incentives to owners to improve energy efficiency in existing buildings
- provide incentives to owners to purchase/build energy-efficient buildings

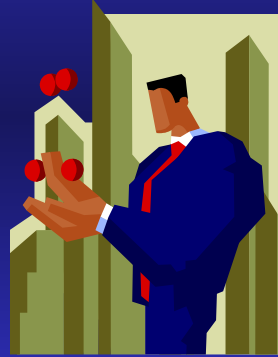
## Existing Benefits

Energy cost savings associated with energy efficient measures

Non-energy benefits, including improved comfort conditions & reduced maintenance costs

## Not enough, because . . .

- owner shares cost benefits with tenants
- owner sells before investment paid back
- avoided energy costs are spread out over time and are not as tangible a benefit as direct returns on investment



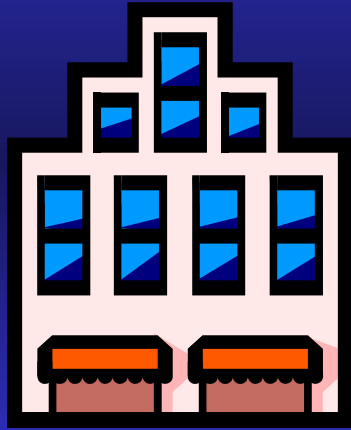
## Current Market Transformation Activities

### Energy efficiency programs

- equipment rebates
- technical assistance
- commissioning
- performance contracting

### Tax incentives

## Property Value



*cuts across all  
building measures in  
all program areas*

## The benefits of added value to the owner



- Higher resale value
- Expanded borrowing privileges
- Increased portfolio value (REITs)

## How does energy efficiency translate into added value?

The value of commercial properties is  
commonly expressed as a function of  
net operating income  
(revenue - operating costs = NOI)

### *Income Capitalization Approach treats the building as a source of income*

Annual expected gross revenue	\$300,000
Less operating expenses	-75,000
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Net operating income (NOI)	\$225,000
Capitalization rate	0.10
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VALUE	\$2,250,000

## Why isn't energy efficiency recognized by appraisers?

- lack of information on performance
- not standard practice
- doubt about savings reliability
- little known about how real estate markets respond to energy efficiency

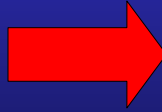


Documentation

## Purpose of an Appraisal

- \* Reflect market value
- \* Assess value as accurately as possible, based on net income potential

ENERGY  
PERFORMANCE



VALUE \$

## The benefits of added value to midstream market participants



- Improved accuracy
- Increased loan portfolios
- Higher sale values



## Energy Efficiency & Property Valuation

The goal is for property appraisers to recognize the incremental value resulting from energy efficiency in commercial and multifamily residential buildings



## Energy Efficiency & Property Valuation

### Program Elements

- market assessment
- recommendations & guidelines
- evaluation of existing tools



## Energy Efficiency & Property Valuation

### Program Elements

- USPAP
- case studies
- continuing-education



## Energy Efficiency & Property Valuation

- \* Real estate brokers
- \* Lenders
- \* Commercial and multifamily residential markets

## Barriers to working with midstream market relationships

- The appraisal is not completely in the hands of the appraiser
- Large number of lenders (and variety of lending practices)
- Appraisers are not interested in adding complexity to their work
- No perceived demand for appraisers who understand energy efficiency

## Strategies (lessons learned)

- Provide simple tools and methods
- Do not put the burden on appraisers
- Provide substitute sources for data

## Documentation

- energy consumption (per square foot)
- savings projections
- note of diagnostic systems or contractual performance assurance arrangements
- performance verification
- energy comps

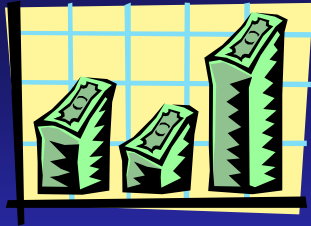


## Energy Efficiency & Property Valuation

### MARKET TRANSFORMATION

- Long-term impact on the market
- Short-term indicators

# Using incremental property value to leverage existing programs



Deliver information on  
translating energy  
savings into higher  
property value in  
combination with existing  
incentives