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Vancouver Valuation Summit

Challenges in Quantifying the Value in Green Buildings



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Sustainable Development – Is No Longer An “If” – It’s Now A When And How Much

- What we are dealing with is effectively a new property sector

"..development that meets the needs of the present without compromising the ability of future generations to meet their own needs."

1985 Brundtland Commission

- What does this mean to the real estate sector?
- What are the challenges that this represents?



#1 Challenge: Learning Curve

Keeping Abreast Of Changes And Innovations

- **Developers and Builders**

- The art of systems integration

- **Brokers, Agents and other Real Estate Professionals**

- Green lease elements

- **Investors/Landlords**

- Better understanding of the costs and benefits and who gets what
- Managing expectations about systems performance, operational factors, direct and indirect benefits

- **Appraisers, Financiers and Rating Agencies**

- Ability to comprehend all of the above
- PLUS how to accurately assess costs versus benefits and opportunities versus risks



Center for Health & Healing OHSU

- Largest LEED Platinum building in US
- MEP Systems savings of \$4.5M
Water
- Integration
- Increased rentable area



The Henry

- Presales
- Re-sales
- Features
- Market perceptions



One and Two Potomac Yard

- Business rationale
- EPA requirements
- Lessons learned
- Future development plans



The Louisa

- Location
- Features
- Market acceptance
 - Absorption
 - Rental rates
 - Tenant retention



Implications For Underwriting Green Buildings

- “Are the benefits of (returns on) investment sufficient to compensate for the risks undertaken?”
 - From a fiduciary perspective
 - **Has there been independent** (3rd party) **testing** of investment assumptions?
- Value is incorporated, but the focus is **risk**
 - Downside equally or more important than upside



Green Valuation Analytics

- **Valuation methodologies for sustainable buildings are, in essence, the same.**
- The valuer needs to recognize that some of the benefits of sustainable features **do not accrue directly to the benefit of the private parties** that are presumed in the market value definition.

Benefits of the sustainable project may be:



Green Valuation Analytics

- The valuer needs to exercise care to consider **all of the costs** and **all of the benefits** in **all approaches to value**.
- Emphasis on “**most probable buyer**” as part of the highest and best use analysis is very effective.

The traditional definition of market value only considers those benefits are:



Green Valuation Analytics

Monetization of Public Benefits:

- Tax Incentives
- Density Bonuses
- Expedited Permitting



Green Valuation Report Contents

Valuation Reports Will Have To Contain Additional Information:

- Market for green buildings and their specific green features
- Life cycle cost assessment
- Increased due diligence relative to engineering scope
- Accurate reflection of both costs and savings
- Qualification/quantification of potential for reduced risk
- Will less efficient buildings be viewed as riskier investments?



**“Value” is Market Derived
NOT
Valuer Prescribed**

