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55 YEARS

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The time to invest in energy efficient systems and construction is NOW

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Keeping older properties competitive is soon becoming an expectation of the marketplace. As energy costs continue their upward trend, operating expense ratios will reflect the pressure these additional expenses are placing on the bottom line. As margins inevitably become more sensitive to additional efficiency related expenses, owners and potential buyers will, by default, become more sensitive to their presence and, more specifically, their absence.

Appraisal theory considers a market, which at its core includes the expectations and prejudices comprised by its participants, the buyers and sellers of that specific market. Markets can apply to property types (cold storage facilities), locations (lakefront residences), or specific property types in specific locations (oceanfront residences in Waldo County, Maine). Energy efficient properties are quickly becoming a statistically relevant percentage or subset of many existing markets.

As an appraiser, I am responsible for reasonably reflecting and translating the motivations of various market participants into an appraisal that mathematically quantifies that market's expectations and prejudices.

As more properties are rehabilitated and new construction, by mandate or choice, makes new technologies and efficiencies the new norm, appraisals will inevitably reflect these new standards as market expectations versus amenities. When market preferences become trends, like the absence or presence of shag orange carpet, astute appraisers will quickly follow suite and correlate these expectations into value opinions.

We are quickly moving towards the point where it is no longer economically viable for older, inefficient systems to remain competitive in the current marketplace. From an appraisal perspective the time to invest in updated technologies is now. Staying ahead of the curve with capital expenditures may not always be a productive use of your assets however, in the case of efficiencies, I believe, the sooner the better.

Owning an energy efficient property can be a wonderful thing. Upfront development costs may take a period to recuperate however, based on careful forethought and planning this payback period is anticipated during the inception of the project, be it new construction or rehabilitation. If all goes well, in several years the initial expenditures have been absorbed, depending on the type of investment, and any property will inherently reap the benefits of lower operating expenses.

Take, for instance, the associated expenses with running an efficient system. The longer the system is updated and translated into energy savings, the more money is being saved during the operation of the real estate. How about inflation? The expense to upgrade to the efficient LP (liquid propane) fired boiler today may be less expensive than it will be in five years when your dollar just doesn't go as far.

Lastly, take into the consideration the labor costs which have remained relatively stagnant, when

compared to other expense, over the tumultuous period associated with the most recent recession. Eventually, labor costs will have to substantially increase to keep pace with living expenses, and then it will be translated to you, the owner and/or developer of the real estate.

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