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## Changing with the times - Building valuation goes green

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Appraisers are facing a growing need to incorporate green into their building valuations. Without fully considering green construction factors, appraisers can seriously undervalue buildings thereby impacting everything from loan origination to property insurance coverage limits.

Green building focuses on the location, design, construction, operation, maintenance, renovation and deconstruction of a building or what is often referred to as a building's "cradle-to-grave" evolution. Green building must also recognize all applicable federal, state and municipal building codes. Green is not a passing fad. Building experts predict that green construction will lead to expansion in spite of the global recession, with some projecting a 60% annual growth trend that will last for at least the next four years. As the construction of green buildings becomes more widespread, appraisers will need to consider sustainable components in their building cost calculations. In a report on green building valuation issues, The Appraisal Journal confirmed that, from both anecdotal evidence and case study research, green and sustainable features can and do influence values and therefore require careful consideration by appraisers and others.

Without accurate data on green components, appraisers are taking their best guess at the costs owners face. This is risky in today's regulated and litigious environment since undervalued buildings can impact transactions. On the tax front, appraisers doing tax assessment work are not adequately addressing municipal tax revenues. Absent reliable green building costs this can lower the effect of putting a municipality in violation of laws that require fair and consistent treatment of taxpayers.

Despite its rapid growth, green building design is a relatively recent phenomenon in the history of construction, presenting appraisers with challenges in obtaining credible cost information. If appraisers lack readily available and objective data, or if their valuation methodology is flawed, the possibility of undervaluation, exposure to losses, and even legal action looms.

Appraisers face several challenges in calculating building values:

- \* Green building certification does not equal real building value
- \* Buildings can include many green components but not be green certified
- \* Green building materials can be difficult to define or identify
- \* Sustainable material costs are only part of the green construction calculation

Marshall & Swift has responded to the green building market by providing a disciplined and well-structured approach to the implementation of green building cost information. This approach incorporates values that are not only inclusive of all expenses owners will face when building and restoring properties, but also includes the many hidden "soft costs" that may not be readily apparent. Marshall & Swift's solution enables appraisers to calculate replacement costs for green buildings, for green additions, and for individual green items. The building solution is a supplement to the Marshall Valuation (MVS) guide and applies to commercial and residential properties. The supplement includes the most common green line item additions to a building and distinguishes new versus

retrofit, including cost of labor. Created using the resources and expertise of nationally recognized green building consultants, this data will be continually updated and refined based on current market data.

Marshall & Swift, recognized as the leader in building valuation, is committed to being the appraisal and real estate industry's source of knowledge for green building, to providing appraisers, real estate agents, and insurance professionals the up-to-date information and techniques necessary to properly value all that is associated with this growing building trend.

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