

# Valuing HERS Raters and The HERS Score *And...really EE Homes*

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# Why am I presenting on this?

1. It bothers me
2. It's something we all have to be involved with
3. I love a challenge
4. I work at AE



advanced  
energy

# Agenda for today

- Introduction
- What's the Problem?
- Moving Parts (issues)
- What is happening nationally?
- What is happening locally?
- What can Home Energy Raters do?  
(Here's where you have to do work)

# Valuing Energy Efficiency

- Orient ourselves: Process not people and the goal would be a win-win.
- What's needed?
  - Ownership and alignment of a new and improved process!
  - It takes a village to bring about this new change (which means you too)

# The Problem

High-performance homes face significant challenges throughout the transaction process.

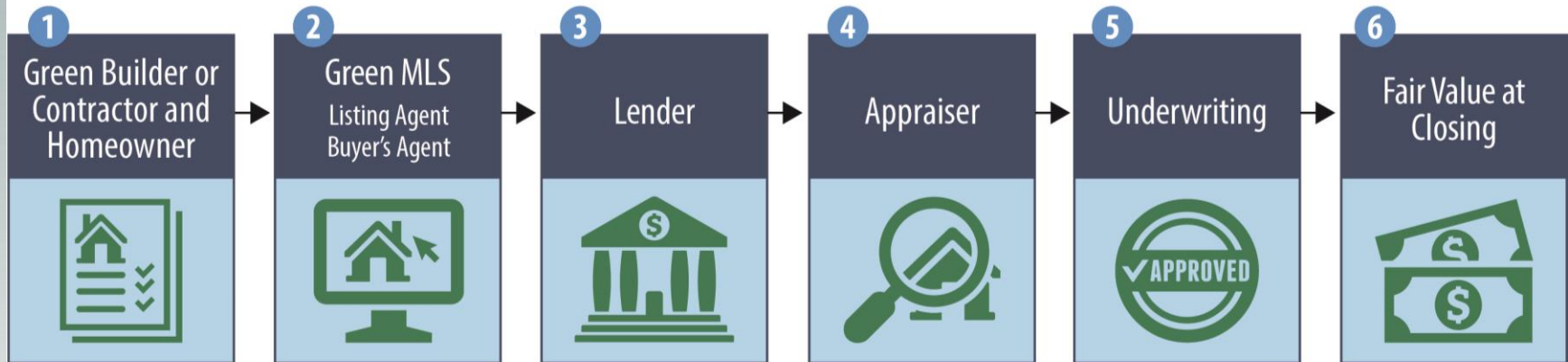
Although the value of high-performance homes is recognized by housing industry stakeholders, there is little to no **ownership and alignment** around how to integrate EE into the process.

# What are the Moving Parts?

- Data
  - No standard process for data to move from Rater all the way through the transaction process.

# Shared Responsibility for Progress

## Value for Green Homes



Documentation is key:

- ✓ Green building certificate
- ✓ Performance test results
- ✓ Local green disclosure form
- ✓ 12 month utility usage

# What are the Moving Parts?

- Data (Continued)
  - Lack of transparency of energy usage data
  - Sometimes there is a lack of data for EE homes
  - Little data is entered into MLS for EE homes
  - Low quality of data entered into MLS
  - Appraisal research to prove that value has increased due to high performance standards
  - Standardizing Greening of MLSs



# Moving Parts (cont)

- Knowledge (Content and Process)
  - Appraisers
  - Realtors
  - Builders
  - Raters
  - Building Performance Professionals
  - Mortgage Lenders
  - Underwriters
  - Homeowners/buyers

# Moving Parts (cont)

- Lack of value proposition among the stakeholders: They don't understand what's in it for them
- Underwriting Standards need to be updated
  - Fannie, Freddie, HUD and FHA Protocols

# Any others big categories?

- Data
- Education
- Value Proposition
- Underwriting Standards

# Big Vision

- The Marketplace is valuing and demanding energy efficient homes and people are aware of their real cost of homeownership

# The Vision(details)

- Everyone is educated and using it
- Data is correct and is documented on every EE home and is where it needs to be
- Stakeholders are all engaged and doing their part
- Underwriting standards are updated
- EE benefits are integrated into the process and HPH are worth more in the market

# What's going on to address this?

## Nationally\*

- DOE Efforts
- AIA Education and Tools
- SAVE ACT
- RESNET Efforts
- NAHB Efforts
- IMT/UNC Study
- Elevate Energy (Formerly CNT Energy)

\*Not everything...just a sampling

# DOE Efforts

- Meeting in 2013 to determine big action items for integrating energy into the Valuation of EE homes.
- Produced a Transaction Process Roadmap
- Lender Partnership with DOE Challenge Home. (In the developmental stages)

# Appraisal Institute Courses

## Valuation of Sustainable Buildings

- Course Descriptions and Online Registration
  - Introduction to Green Buildings
  - Case Studies in Appraising Green Residential Buildings
  - Residential and Commercial Valuation of Solar
  - Case Studies in Appraising Green Commercial Buildings
- FAQs
- Green/Sustainability Program Registry
  - Residential
  - Commercial

<http://www.appraisalinstitute.org/education/your-career/professional-development-programs/#Valuation of Sustainable Buildings>



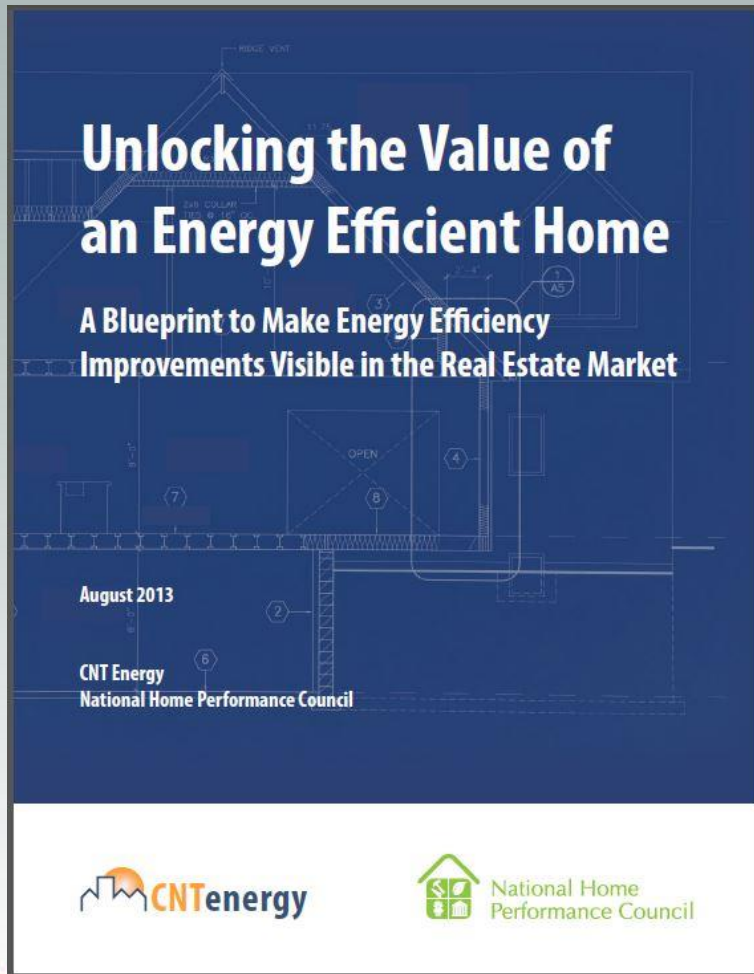
# RESNET Efforts

- Integration of AIA's Green Addendum into the RESNET approved software programs.
- Integrating the HERS Score into several MLS's across the country.

# The Save Act

- Legislation to improve the accuracy of mortgage underwriting used by federal mortgage agencies by including a home's expected energy cost savings when determining the value and affordability of energy efficient homes.

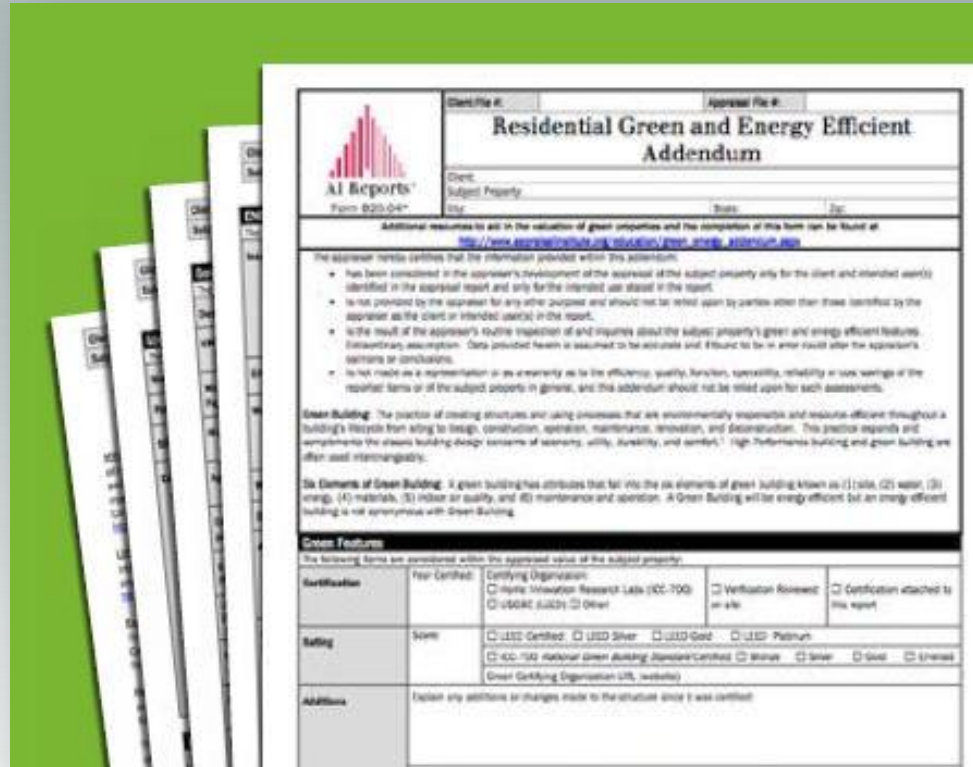
# Elevate Energy-Chicago



- Better documentation -  
New *and* existing homes
- Better Tracking:
  - Green MLS Usage
  - Density of High Performance Home inventory
- Building science continuing education
- Appraiser-designed valuation studies

[www.elevateenergy.org/wp-content/uploads/2014/01/Unlocking the Value an Energy Efficient Home.pdf](http://www.elevateenergy.org/wp-content/uploads/2014/01/Unlocking_the_Value_an_Energy_Efficient_Home.pdf)

# RESNET and Appraisal Institute Licensing Agreement



**AI Reports**  
Form 620-04\*

Client File #: \_\_\_\_\_ Appraisal File #: \_\_\_\_\_

## Residential Green and Energy Efficient Addendum

Client: \_\_\_\_\_  
Subject Property: \_\_\_\_\_  
Site: \_\_\_\_\_ Tract: \_\_\_\_\_  
City: \_\_\_\_\_ State: \_\_\_\_\_

Additional resources to aid in the valuation of green properties and the completion of this form can be found at <http://www.appraisalinstitute.org/valuation/green-energy-addendum.pdf>

The appraiser hereby certifies that the information provided within this addendum:

- has been considered in the appraiser's development of the appraisal of the subject property only for the client and intended users identified in the appraisal report and only for the intended use stated in the report.
- is not provided by the appraiser for any other purpose and should not be relied upon by parties other than those identified by the appraiser as the client or intended users in the report.
- is the result of the appraiser's routine inspection of and inquiries about the subject property's green and energy efficient features. Inherent assumption. Data provided herein is assumed to be accurate and should not be relied upon for such assessments.
- is not made as a representation as to the efficiency, quality, function, operability, reliability or use savings of the reported items or of the subject property in general, and this addendum should not be relied upon for such assessments.

**Green Building:** The practice of creating structures and using processes that are environmentally responsible and resource efficient throughout a building's lifecycle from siting to design, construction, operation, maintenance, renovation, and deconstruction. This practice expands and complements the classical building design concerns of economy, utility, durability, and comfort. High Performance building and green building are often used interchangeably.

**Six Elements of Green Building:** A green building has attributes that fall into the six elements of green building known as (1) site, (2) water, (3) energy, (4) materials, (5) indoor air quality, and (6) maintenance and operation. A Green Building will be energy efficient but an energy efficient building is not synonymous with Green Building.

**Green Features**  
The following items are presented within the appraised value of the subject property:

Certification	Year Certified:	Certifying Organization:	Verification Reviewed:	Certification attached to this report:
		<input type="checkbox"/> Institute for Innovation Research Labs (IIR-700)	<input type="checkbox"/>	<input type="checkbox"/>
		<input type="checkbox"/> USGBC (LEED)	<input type="checkbox"/>	<input type="checkbox"/>

Rating	Score:	Certification:
		<input type="checkbox"/> LEED Certified <input type="checkbox"/> LEED Silver <input type="checkbox"/> LEED Gold <input type="checkbox"/> LEED Platinum
		<input type="checkbox"/> ICC-709 National Green Building Appraisal Certified <input type="checkbox"/> Bronze <input type="checkbox"/> Silver <input type="checkbox"/> Gold <input type="checkbox"/> Emerald
		<input type="checkbox"/> Green Certifying Organization (GCO, website)

**Additional:** Explain any additions or changes made to the structure since it was certified.

[www.appraisalinstitute.org/assets/1/7/ai-residential-green-energy-effecient-addendum.pdf](http://www.appraisalinstitute.org/assets/1/7/ai-residential-green-energy-effecient-addendum.pdf)



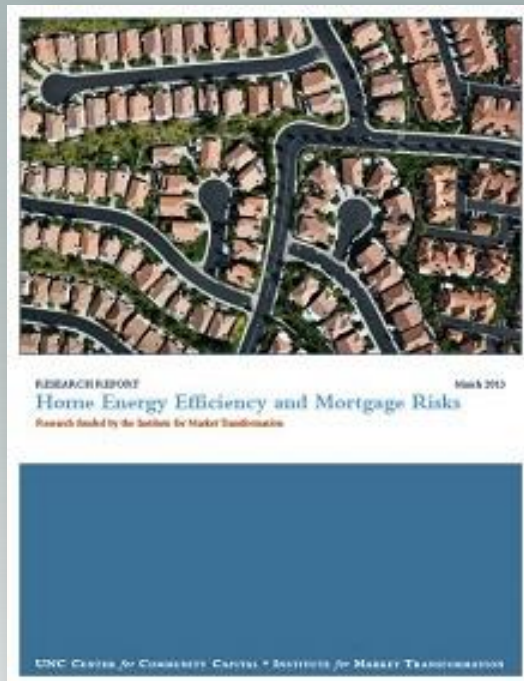
# Green MLS Available in Top Population Centers



Source: NAR Green REsource Council research, November 2010

# Home Energy Efficiency and Mortgage Risks

March 2013

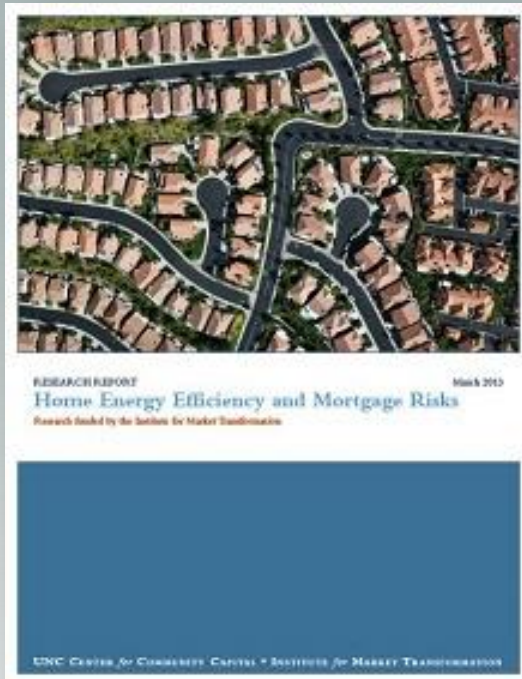


- Is residential energy efficiency associated with lower mortgage default and prepayment risk?
- National sample of 71,000 mortgage loans
  - 29,994 ENERGY STAR homes
  - 46,118 Control Group homes
- The study controls for:
  - The size of the house
  - The age of the house
  - Loan-to-value ratio\*
  - Borrower credit score
  - Loan type
  - Median neighborhood income
  - House value relative to the area median value
  - Local unemployment rate
  - Local weather
  - Price of electricity
  - State



# Findings

- Default risks are on average 32% lower on ENERGY STAR homes, controlling for other loan determinants. The more efficient the house, the lower the default risk.
- A mortgage on an ENERGY STAR residence is 27% less likely to be prepaid.
- While results hold true at a national level, findings vary greatly by state (reflecting inadequacy of the sample size)
- Results are statistically significant at a 99.9% confidence level.






# Markets-What's going on?

- Georgia
- Chicago
- Phoenix





# Energy Cost “Auto-Pop” in Chicago



Welcome **Becky R Realtor** for Team Becky


Contact

My MLS
Search
Listings
Reports
Forms
Setup

**Search Results - Attached Single**

[List View](#)
[Refine Criteria](#)
Full - Agent
Show
AA
Quick
Advanced
En

showing 1 of 1 listings



**Detached Single**

Status: **NEW**  
 Area: **8021**

List Date: **06/26/2013**  
 List Dt Rec: **06/26/2013**

List Price: **\$399,900**  
 Orig List Price: **\$399,900**  
 Sold Price:

Directions: **Diversey West to Rockwell, North to Property**

Sold by:  
 Closed:  
 Off Market:  
 Year Built: **1920**  
 Dimensions: **37.5X125**  
 Ownership: **Fee Simple**  
 Corp Limits: **Chicago**  
 Coordinates: **N:2900**  
**W:2600**

Rooms: **7**  
 Bedrooms: **4**  
 Basement: **Full**

Contract:  
 Financing:  
 Blt Before 78: **Yes**

Subdivision:  
 Township: **North Chicago**

Model:  
 County: **Cook**  
 # Fireplaces:

Lst. Mkt. Time: **1**  
 Points:  
 Contingency:  
 Curr. Leased: **No**

Bathrooms **1 / 1**  
 (full/half):  
 Master Bath: **None**  
 Bsmnt. Bath: **No**

Parking: **Garage**  
 # Spaces: **Gar:2**  
 Parking Incl. **Yes**  
 In Price:

Utility Costs: Elec. - \$770.60/yr,\$64.22/mo; Gas - \$1198.00/yr,\$99.83/mo

**Remarks: CHARMING 4 BED+DEN, 1.1 BATH SINGLE FAMILY HOME ON LOT & A HALF IN DESIRABLE LOGAN SQAURE/AVONDALE LOCATION. REMODELED APPROX 10 YEARS AGO W/ NEWER HVAC, ELECTRIC, PLUMBING, H2O HEATER & ROOF. DIAG HDWD FLRS; LARGE EAT IN KITCHN W/ SS APPLS; HIGH CEILINGS; FULL BASEMENT; HUGE FENCED YARD W/ BLUE STONE PATIO; SECURITY SYS OVERSIZED 2 CAR GARAGE. CLOSE TO 90/94 & ALL LOGAN SQAURE/BUCKTOWN SHOPPING & RESTAURANTS!**

# Georgia/Georgia Power



3 BED/2 BATH

**77 HERS**

THE HOME ENERGY RATING SYSTEM.  
THE NEWEST NUMBER IN REAL ESTATE.

**LEARN HOW TO SAVE MONEY AND ENERGY WITH THE HOME ENERGY RATING SYSTEM.**

It's the national standard for measuring energy efficiency. The score of an average existing home is 130, while an EarthCents<sup>SM</sup> New Home scores 77 or less. That difference can add up to hundreds of dollars a year. So look for the HERS index, buy smart and save big. Learn more at [georgiapower.com/HERS](http://georgiapower.com/HERS).



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# Arizona/Arizona Public Service

## Solution Summit to Address Green Valuation

### **5 Action Plans Created by the Stakeholders:**

1. Techniques for Appraising Value
2. Streamlining Process for Data Transfer
3. Value Proposition
4. Data Collected and Recorded
5. Secondary Mortgage Values



# The Rater's Role in all this

- Holder of all Energy Information
- Facilitator of all things EE
- What do we do with all this responsibility?

# Group Activity

- Split in groups (3 )
- Discussion and Develop Action plans around how Home Energy Raters can be a part of the solution.
- Present your results
- Discuss

## **Appraisers**

- Unique position in market
- Charge premium
- Future tie in to 3rd
- Increased referrals
- Reduced liability
- Preserving insurance
- Access to data = time efficiency
- Increased integrity
- Depends on other change
- Increased business
- Trust built with colleagues
- Learning opportunity to keep skills sharp
- Leadership in Industry
- Greater social skills, better data

## **Real Estate Professional**

- Higher commission
- Higher value to consumer/client
- Customer satisfaction/customer service
- Competitive advantage
- Marketability of product
- Increase excitement/confidence
- Credibility increase
- Accurate MLS data
- Increased liability
- Happy customers
- More listings/referrals
- Better info for buyers
- Trust with clients = referrals
- Learning/teaching opportunity
- Meeting consumer (younger generation) demand
- Better communication skills
- Save deals
- Create deals
- Eliminate commission-ectomies
- Less time per buyer
- Leadership image to save planet

## Builder

- Quality buyers
- Close sales
- Differentiate from existing
- Traction in secondary market; certified databases
- Buyer satisfaction
- “Rising Tide”
- Ability to sell upgrades
- Resell value
- Return on upfront investment
- Validation
- Competitive advantage
- “Green Marketing”
- More features
- Educational opportunities
- Community building
- Higher sales price
- More sales
- Premium
- Buyer satisfaction = referrals = more \$
- Reduce liability
- Lower insurance notes
- Bigger buyer base
- Competitive rates
- Rebates/incentives

## Home Owner

- Actual value at point of resale
- Lower operating costs during ownership = lower default risk
- Better educated consumer = smarter buyer decisions
- Living in higher quality and more durable home. Increase comfort and health
- Aware “Green Mortgage”, incentives, tax rebates – better buying power
- Sense of pride and feel good
- Third-party validation- comfort, safety, wealth, new appliances, rebates-tax credits
- Future generations can benefit with reduced impacts- lower payments, wealth creation
- Healthier homes
- More disposable income for other purchase and/or services, i.e. lawn care = more time
- Higher likelihood to afford house
- Potentially lower PMI in future
- Better representation from real estate professionals & service from lenders

## Lenders

- More borrowers = more EE = lower default
- Increase borrowing power
- Qualifying marginal borrowers
- Increased loans
- Decreased risk (32%) of default
- Increased loan amounts
- Decrease loan: value ration
- More business!! = More \$ increase profits
- Trust
- Lower rates
- Innovative
- Competitive advantage
- Leader
- Increase programs (low income, etc.)
- Compounding benefit to local economy, i.e. a more stable community builds strong communities
- Small business loans are most often home equity loans