



Appraising ENERGY STAR Homes

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Introductions

Why Advanced Energy

- Part of the NC Energy Efficiency Alliance
 - NC State Energy Office
 - NC Solar Center
 - Appalachian State
 - Southern Energy Management

www.ncenergystar.org

Background

- Why builders care about appraisals
- Why appraisal value is a real barrier for energy efficient home construction
- What is happening nationwide to overcome these barriers
- What you can do to help

Today's Discussion

Building energy efficient homes today is more challenging for many builders...

Appraisals and the Home Builder

Costs to build ENERGY STAR and other energy efficient homes may be increasing with Version 3 and stricter codes



Credit is still tight for both the
builder and buyer



Lenders, realtors and appraisers have little to no education about the value of energy efficient homes



Though buyer demand is increasing in some areas of the country, it is still flat in many



There are some positive market forces

Good news

Supply of high-performance homes is increasing...

- There are more than 1 million ENERGY STAR qualified homes nationwide
- The number of regional and national green building programs is increasing
- Funding residential energy efficiency activities is a high priority at the federal, state and local levels
- State and local building codes are ramping up their energy efficiency requirements

Consumers are interested in making “green” choices...

- 63% of Americans are searching for greener products*
- 44% say they are looking for greener products in home improvement product areas*
- In 2009, 67% said that an Energy Star certification of a home would somewhat or very much so influence their decision to buy a home, assuming price, size and location were the same

*Shelton group research

- Lenders were blamed for making bad loans-
you can breathe, you can get a loan
- Financial institutions were blamed for creating
risky investments
- Appraisers were blamed for inflating the value
of homes

Housing Market Crash

New set of HVCC rules in 2010- massive changes

Home Value Code of Conduct governs:

- Who can order an appraisal
- Who can perform an appraisal
- Who can communicate during this process
- Created new organizations called AMCs

Upheaval in Appraisal Industry

Appraisal Management Companies

- Roughly 25 large AMC's based in metropolitan areas
- They are the new “middle man”
- They have only arm's distance relationships with lenders or appraisers

Creation of the AMC

- You can't call your buddy Joe anymore!
- The appraisal business is no longer built on relationships
- An appraiser with one year of experience is "equal" to one with 15 years of experience
- Joe is frustrated, demotivated and struggling to make a living

What Happened to Joe?

New regulations

- As of Jan. 1, 2011 AMCs must collect competency information on all of their appraisers and keep it on file
- There is momentum for introducing a new “green” competency for appraisers

There is hope...

From the Fannie Mae HVCC guidelines

- Additionally, it is important to note that when an appraiser signs Fannie Mae's residential appraisal report form, the appraiser is also certifying the following:
- "I have knowledge and experience in appraising this type of property in this market area."

Appraisers retrieve their information from:

- Tax records
- MLS
- Home visits

Valuing a Home

Uniform Residential Appraisal Report

File # _____

There are _____ comparable properties currently offered for sale in the subject neighborhood ranging in price from \$ _____ to \$ _____

There are _____ comparable sales in the subject neighborhood within the past twelve months ranging in sale price from \$ _____ to \$ _____

FEATURE	SUBJECT	COMPARABLE SALE # 1			COMPARABLE SALE # 2			COMPARABLE SALE # 3		
Address										
Proximity to Subject										
Sale Price										
Sale Price/Gross Liv. Area										
Data Source(s)										
Verification Source(s)										
VALUE ADJUSTMENTS										
DESCRIPTION										
DESCRIPTION										
+(-) \$ Adjustment										
DESCRIPTION										
+(-) \$ Adjustment										
DESCRIPTION										
+(-) \$ Adjustment										
Sale or Financing Concessions										
Date of Sale/Time										
Location										
Leasehold/Fee Simple										
Site										
View										
Design (Style)										
Quality of Construction										
Actual Age										
Condition										
Above Grade										
Room Count										
Gross Living Area										
Basement & Finished Rooms Below Grade										
Functional Utility										
Heating/Cooling										
Energy Efficient Items										
Garage/Carport										
Porch/Patio/Deck										
Net Adjustment (Total)										
Adjusted Sale Price										

SALES COMPARISON

General Description		Foundation	Exterior Description materials/condition	Interior materials/condition
Units <input type="checkbox"/> One <input type="checkbox"/> One with Accessory Unit	<input type="checkbox"/> Concrete Slab <input type="checkbox"/> Crawl Space	Foundation Walls	Floors	
# of Stories	<input type="checkbox"/> Full Basement <input type="checkbox"/> Partial Basement	Exterior Walls	Walls	
Type <input type="checkbox"/> Det. <input type="checkbox"/> Att. <input type="checkbox"/> S-Det./End Unit	Basement Area sq. ft.	Roof Surface	Trim/Finish	
<input type="checkbox"/> Existing <input type="checkbox"/> Proposed <input type="checkbox"/> Under Const.	Basement Finish %	Gutters & Downspouts	Bath Floor	
Design (Style)	<input type="checkbox"/> Outside Entry/Exit <input type="checkbox"/> Sump Pump	Window Type	Bath Wainscot	
Year Built	Evidence of <input type="checkbox"/> Infestation	Storm Sash/Insulated	Car Storage <input type="checkbox"/> None	
Effective Age (Yrs)	<input type="checkbox"/> Dampness <input type="checkbox"/> Settlement	Screens	<input type="checkbox"/> Driveway # of Cars	
Attic <input type="checkbox"/> None	Heating <input type="checkbox"/> FWA <input type="checkbox"/> HWBB <input type="checkbox"/> Radiant	Amenities <input type="checkbox"/> Woodstove(s) #	Driveway Surface	
<input type="checkbox"/> Drop Stair <input type="checkbox"/> Stairs	<input type="checkbox"/> Other Fuel	<input type="checkbox"/> Fireplace(s) # <input type="checkbox"/> Fence	<input type="checkbox"/> Garage # of Cars	
<input type="checkbox"/> Floor <input type="checkbox"/> Scuttle	Cooling <input type="checkbox"/> Central Air Conditioning	<input type="checkbox"/> Patio/Deck <input type="checkbox"/> Porch	<input type="checkbox"/> Carport # of Cars	
<input type="checkbox"/> Finished <input type="checkbox"/> Heated	<input type="checkbox"/> Individual <input type="checkbox"/> Other	<input type="checkbox"/> Pool <input type="checkbox"/> Other	<input type="checkbox"/> Att. <input type="checkbox"/> Det. <input type="checkbox"/> Built-in	
Appliances <input type="checkbox"/> Refrigerator <input type="checkbox"/> Range/Oven <input type="checkbox"/> Dishwasher <input type="checkbox"/> Disposal <input type="checkbox"/> Microwave <input type="checkbox"/> Washer/Dryer <input type="checkbox"/> Other (describe)				
Finished area above grade contains:		Rooms	Bedrooms	Bath(s)
Square Feet of Gross Living Area Above Grade				
Additional features (special energy efficient items, etc.)				
Describe the condition of the property (including needed repairs, deterioration, renovations, remodeling, etc.).				
Are there any physical deficiencies or adverse conditions that affect the livability, soundness, or structural integrity of the property? <input type="checkbox"/> Yes <input type="checkbox"/> No If Yes, describe				
Does the property generally conform to the neighborhood (functional utility, style, condition, use, construction, etc.)? <input type="checkbox"/> Yes <input type="checkbox"/> No If No, describe				

Uniform Residential Appraisal Report

File #

There are _____ comparable properties currently offered for sale in the subject neighborhood ranging in price from \$ _____ to \$ _____

- Appraisers traditionally using 3 different methods:
 - Cost approach
 - Comparison approach
 - Income approach

Confusion about:

- The various green and energy efficient construction programs
- HERS scores
- Where they can receive information about energy efficiency
- How to compare house to house

Still a lack of education

Appraisal Institute recently added two new courses:

- Case studies in Appraising Green Residential Buildings
- Introduction to Green Buildings

Several local areas have created their own green appraiser certification

- Portland, Washington, Colorado

Beware of limited knowledge from training vendors

New Green Appraiser Certification

Realtor knowledge is still minimal as well

- ENERGY STAR homes = appliances
- No one is asking
- Why should I make my job harder?

Minimal Realtor knowledge

Green MLS includes areas for:

- Green home certification
- Green home features

Greenthemls.org

The Green MLS

Green Building Certifications

- Energy Star Home
- GHBT Green Certified Home
- NC Healthy Built Home Certified
- Leed-H Certified

Snapshot from the MLS

Green Building Features

- Solar Hot Water
- Tankless Water Heater
- GeoThermal Heat System (closed loop)
- Sealed Crawl Space
- No/Low VOC in Paints/Sealents/Varnishes
- Spray Foam Insulation
- Engineered Wood Products
- Energy Star Appliances
- Energy Star Lighting Features
- EPA WaterSense Plumbing Fixtures
- Sealed Combustion Fireplace/Woodstove
- Photovoltaics-Solar Power
- Advanced Framing/Concrete Construction
- Infill Lot
- Rainwater Collection
- Xeriscaping/Drought Resistant Plants
- Fresh Air Ventilation
- Recycled Construction/Household Waste
- Radiant Heated Floors

Snapshot from the MLS

- Educate agents about energy efficient homes
- Provide them with information about the home's HERs score and expected energy savings
- Help local MLSs go green
- Educate agents in those areas to use and populate the MLS
- Use greenthemls.org as a resource

Educating Agents

Energy Star V2 Home Report from REM

- **Normalized, Modified End-Use Loads
(MMBtu/year)**

<i>ENERGY STAR</i>	<i>As Designed</i>
Heating: 23.4	22.8
Cooling: 23.7	15.5
Water heating: 10.5	12.0
Lighting & Appliances: 23.0	26.0
Total: 80.6	76.2
HERS Index: 85	80

Energy Star V2 Home Report

- **Energy Cost Savings (\$/year)**
- Heating: \$130
- Cooling: \$152
- Water Heating: \$23
- Lights & Appliances: \$33
- Total: \$339

Energy Appraisal Addendum

- This form is to be filled out and a copy attached to the Uniform Residential Appraisal Report (FHLMC Form 70; FNMA Form 1004) and submitted in conjunction with the Home Energy Rating Report.
- In order to evaluate the energy efficiency of the dwelling improvements, and in the absence of comparable sales or other traditional database, the appraiser has reviewed both the estimate of energy efficiency improvement costs and calculated the present worth of the energy efficient improvements as provided by the Certified HERS Energy Rater.
- The energy efficiency value increment, based on the lesser of the referenced improvement cost or present worth, estimate, is concluded in the sum of \$_____, which represents an added value to the market value conclusion set forth in the appraisal report.
- **ADJUSTED VALUE MARKET VALUE \$**
- **CONCLUSION ENERGY-EFFICIENCY INCREMENT \$ _____**
- **TOTAL ESTIMATED VALUE \$**

It's working in some markets

Case Studies

Certified Green Home Sales Statistics in Atlanta, GA 2009

	Green Certified	Non Certified	% Difference
Current List Price	\$412,450	\$438,900	93.8%
Sales Price	\$389,950	\$399,900	97.5%
Sales Price/List Price Ratio	94.5%	90.9%	3.6%
Total Days on Market	108	139	77.3%
Number of Homes Sold	94	1,305	7.2%

Certified Green Homes Include EarthCraft House, LEED for Homes, NAHB Green & ENERGY STAR
Data based on single family, new construction
Source: Keller Williams Realty Peachtree Battle

Case Studies

Certified Green Home Sales Statistics Portland, OR 2009-2010

	Green Certified Homes Sold	Market Share Among All New Homes	Price Premium
May 1, 2007 to April 20, 2008	833	14%	21%
May 1, 2008 to April 30, 2009	674	17%	12%
May 1, 2009 to April 30, 2010	403	23%	18%

Green Certified Homes include Earth Advantage, ENERGY STAR and LEED for Homes

Data based on single family, new construction

Source: Earth Advantage Institute

Case Studies

- Regional/local green training and outreach efforts for appraisers
- Legislation proposed to require use of green certified appraiser for green certified homes, require an energy audit at resale
- Studies on the market value of third-party certified homes
- Regional/local efforts to “green” the MLSs
- Regional/local efforts to include the added value of ENERGY STAR qualified homes in appraised value

National Efforts

- Raters can now play an even larger role in making sure the right information gets to the right people for properly evaluating the value of an energy efficient home
- Flow from rater-builder/sales staff-appraiser-lender

What Does This Mean for You?

- Rater can provide a great service to the builder by ensuring the correct information gets to the appraiser for proper valuation
- You can increase your value to the builder and strengthen your relationship

Relationships

Join us in educating all
industry stakeholders-
your potential impact is
huge!

Help breakdown the barriers

Questions?