

# Valuing High Performance Homes

Strategies for Working with the  
Appraisal Industry

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# The Green Market Challenge

- Building green and energy efficient buildings must be profitable to be mainstream
- Green homes are worth more, but they don't always sell for more
- Green homes must have demonstrated cost effectiveness if they are to be valued for more
- Appraisers and lenders can derail good green projects by not valuing green.

# Background-Appraisal Industry

- \* Dominated by a handful of national firms.
- \* Cost to consumer is high.
- \* Appraiser compensation is low.
- \* Strict appraisal ordering requirements.
- \* High tech monitoring of appraisers.
- \* GSE Loan Quality Initiatives.
- \* Declining real estate values with REO dominated sales.

# Issues in Valuing Energy Efficiency

- \* Finding valid comparables.
- \* Appraiser qualifications and appraisal type.
- \* Understanding of energy efficiency.
- \* Incorporating HERS report or other Ratings
- \* Establishing value, detailing costs and identifying savings.
- \* As completed appraisals.
- \* Auditing of completed work.

***“Their job is to read the market,  
not to set it.”***

- Most appraisers are understandably reluctant to assign value without supporting data on market preferences
- Widespread misperception of market indifference to energy efficiency

**“Our job is to help them read it”**

# Methods of Valuing Property

- Sales comparison approach
- Cost approach
- Income approach



# Sales Comparison Approach

Improvements Section (page 1 of URAR)

Additional features (special energy efficient items, etc.)

Sales Comparison Section (page 2 of UARR)

Functional Utility

Heating/Cooling

Energy Efficient Items

# **Energy-efficiency measures create other benefits/value**

- **Comfort**
- **Health**
- **Productivity**
- **Visual and acoustic improvements (less noise, glare, etc.)**
- **Durability**
- **Environmental responsibility**

# Illustrating Energy Cost Savings

- Typical home cost: \$200,000
  - Down payment: \$ 20,000
  - Monthly payment: \$ 1,079
  - Monthly energy costs: \$ 189
  - Total monthly cost: \$ 1,268

- ENERGY STAR® Labeled Home cost: \$203,000
  - Down payment: \$ 20,300
  - Monthly payment: \$ 1,095
  - Monthly energy costs: \$ 132
  - Total monthly cost: \$ 1,227

Net ENERGY STAR® Savings per month \$ ~ 41

# Cost Approach

- Provide adequate information for the lender/client to replicate the below cost figures and calculations.
- Support for the opinion of site value (summary of comparable land sales or other methods for estimating site value)
- Estimated Reproduction or Replacement Cost
- Source of cost data Dwelling \$ per Sq. Ft.
- Quality rating from cost service Effective date of data.
- Comments on Cost Approach (gross living area calculations, depreciation, etc.)

# Income Approach

- Generally used for rental and 2 to 4 family properties.
- Identify monthly energy savings.
- Impact of energy savings on obtainable rents.
- Lower expected vacancy due to savings and other green features.
- Find other comparable green buildings to obtain the Gross Rent Multiplier (GRM)

# Appraisal Ordering Checklist

- \* Have lender request certified appraiser
- \* Have HERS and other Ratings Available
- List all energy savings features.
- Identify costs of these features.
- Present green designations: Energy Star, LEED, NAHB, etc.

# Available Products and Requirements

FHA EEM for new, refi and purchase money.

- additional 5% of value

- NPV of energy savings added to appraisal

Fannie Mae Energy feature for refinance and purchase

- additional 10%

- as completed appraisal required

HUD PowerSaver

- up to \$25k secured as second mortgage

- \$7500 or less unsecured

- no appraisal required

- cost information is paramount

# Valuing Energy Star Homes

## ***Gainesville, FL Case Study:***

*After comparing nearly identical 1,500 sq. ft. homes, resold in a Gainesville, Florida subdivision, one **ENERGY STAR** labeled and the other not:*

***“I found a \$4,000 value to ENERGY STAR certification. This was one of the best appraisals involving ENERGY STAR certification I have done recently.”***

*Karl Sayles*

*Darty Appraisal Service*

*Melrose, Florida*

# Emerging Developments

Green Multiple Listing Service (MLS)

The SAVE Act

Green Appraisal Guide

Emergence of Green Appraisers

# THE GREEN MLS TOOL KIT

This website ([www.greenthemls.org](http://www.greenthemls.org)) is a valuable resource for those interested in implementing a green initiative for their Multiple Listing Service (MLS).

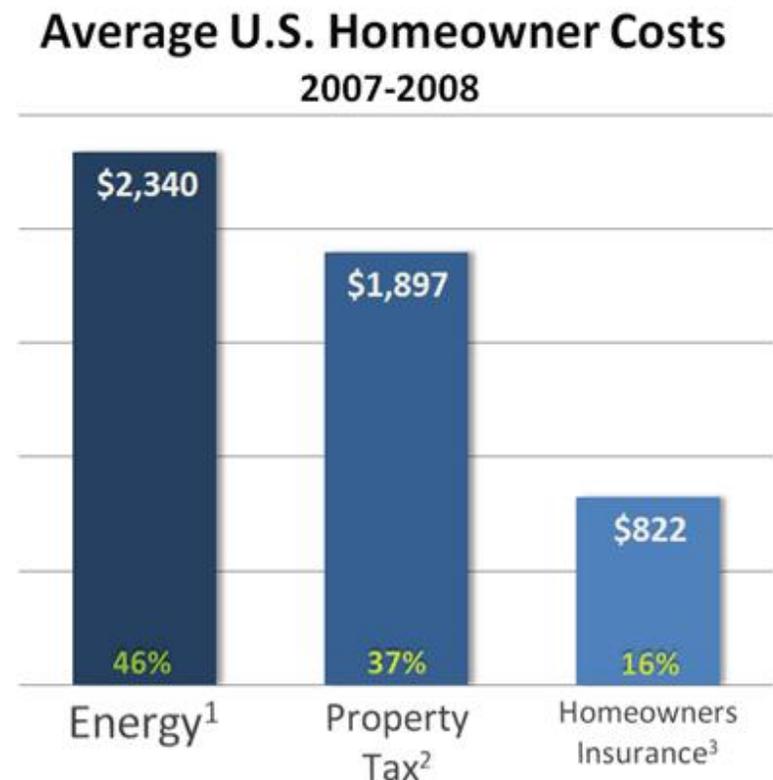
- The tool kit contains access to supporting documents and resources that will assist the process of greening the MLS.
- These resources include links to [case studies](#) of MLS systems which have completed a green initiative, [example data entry forms](#) containing searchable green features, etc.

# Organization that collaborated in the creation of the tool kit:

Multi-Regional Multiple Listing Service  
Metropolitan Regional Information System  
Council of Multiple Listing Services  
Traverse Area Association of REALTORS®  
National Association of REALTORS®  
NeighborWorks® America  
US Green Building Council  
National Association of Home Builders  
EcoBroker® International  
Enterprise Community Partners, Inc.  
Appraisal Institute

## Aligning mortgage policy with energy efficiency

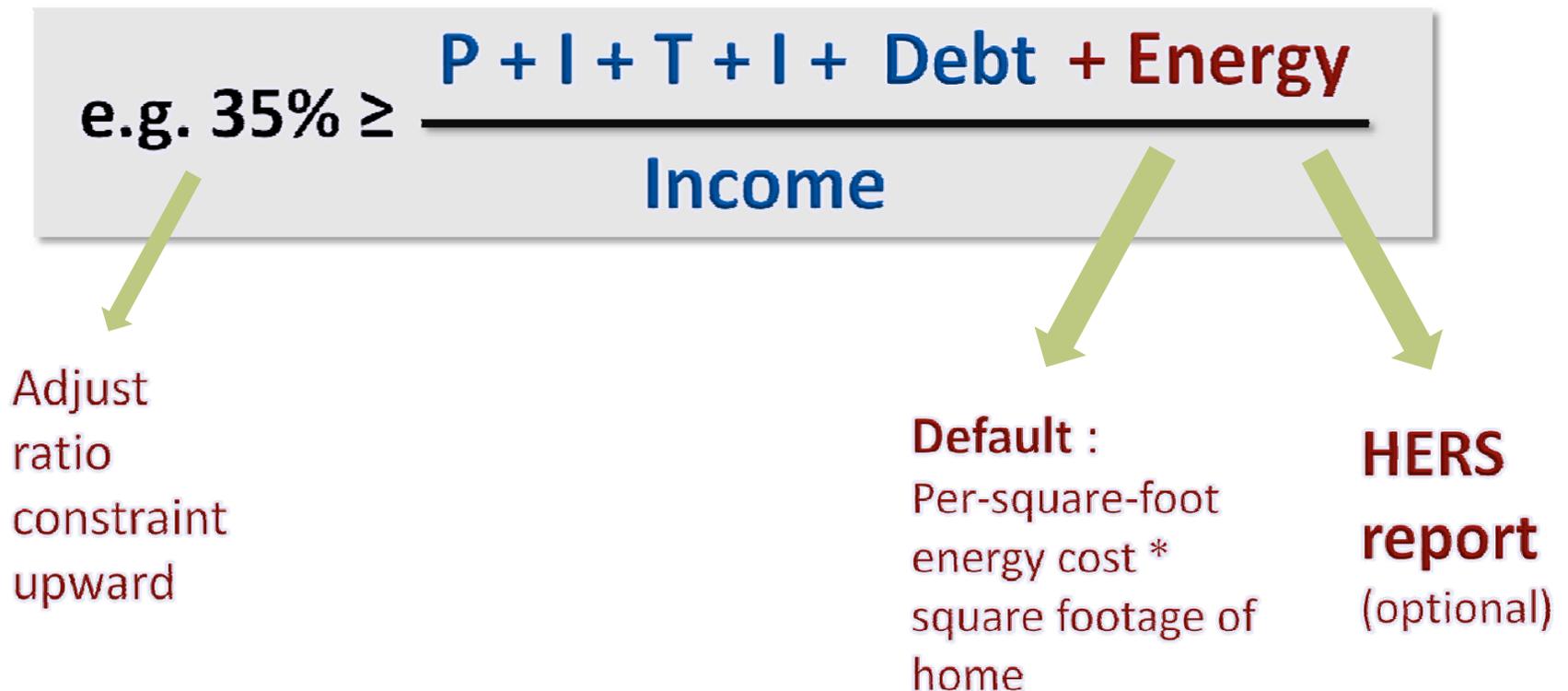
- A homeowner who spends less on utilities will have more money to make mortgage payments
- For a typical house :
  - Median home price - \$175,000
  - Average 30-year commitment to energy costs - \$70,000
- The SAVE Act seeks to correct this energy “blind spot” in mortgage underwriting.



## Capacity:

Lender uses a series of **eligibility tests** to determine the borrower's ability to pay a monthly mortgage payment. Energy costs are regularly excluded from these tests.

The SAVE Act would add estimated energy costs to the criteria accounted for in the Debt-to-Income Ratio:



# The SAVE Act: Sensible Accounting to Value Energy

## Collateral:

Lender arranges to have a professional appraiser estimate the market value of the house. Residential appraisers rarely account for energy efficiency:

- Lack of awareness, expertise, incentive
- Appraisers rely on “comps”
- Little agreement on how to value energy efficiency.

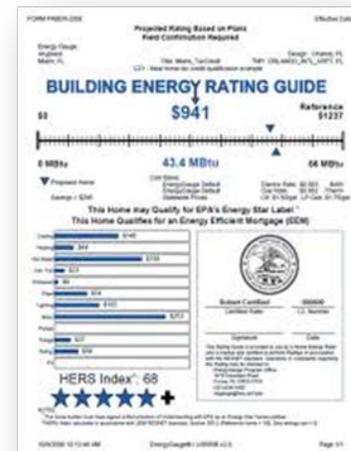
The SAVE Act would give underwriters the option of adding the NPV of the energy savings to the appraised value of the subject property for the purposes of calculating the Loan-to-Value ratio.

### Appraised Value



+

### NPV of energy savings from energy report



# Appraisal Institute's "An Introduction to Green Homes"

An overview of the programs, organizations, and products that are fueling the surge in environmentally responsible building and remodeling.

Detailed descriptions of LEED and Energy Star green home and product certification programs

Information on popular green home products and features.

Detailed case studies focusing on various attributes of green homes

Insights on how green features affect the value of homes

Methodologies that can be applied to measure this increment of home value

## *Appraisers are Greening*

*“As consumers become more educated and familiar with all of these benefits that energy efficiency has to offer, **in five years non-ENERGY STAR rated homes will become functionally obsolete.**”*

*Karl Sayles*

*Darty Appraisal Service*

*Melrose, Florida*

# Resources for energy-performance assessment and comps

## LEED

(Leadership in Energy and Environmental Design)

[www.usgbc.org/leed](http://www.usgbc.org/leed)

General information, guidelines on energy reporting

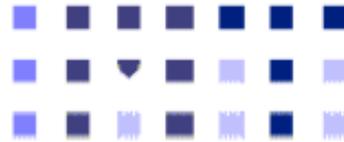
[www.imt.org](http://www.imt.org)

## ENERGY STAR

[www.energystar.gov](http://www.energystar.gov)

Working with ENERGY STAR as a Real Estate Agent

[www.energystar.gov/index.cfm?c=bldrs\\_lenders\\_raters.nh\\_benefits\\_realtors](http://www.energystar.gov/index.cfm?c=bldrs_lenders_raters.nh_benefits_realtors)



# Institute for Market Transformation

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