Making the Invisible Visible: A Blueprint for Seeking Real Estate Value for Energy Efficiency

• Jeffrey Gephart is president of Vermontwise Energy Services, Inc. an energy services company in Rochester, Vermont, he co-founded in 1997. He has 20 years of experience in residential new construction energy-efficiency program design and implementation. On behalf of Efficiency Vermont, Jeff works with architects, builders, developers, trade allies, and consumers building ENERGY STAR® certified homes, LEED for Homes, National Green Building Standard, and Passive House projects. With the Vermont Green Home Alliance he is working with appraisers, mortgage lenders, realtors, the regional MLS, and others to ensure energy-efficient and sustainable building practices are appropriately valued in the housing market.
The Visible Value
Blueprint CNT
Energy 2013
Visible Value Blueprint: 7 Steps

1. **Document** energy efficiency features and improvements using consistent, standardized methods.

2. **Disclose inventories** of energy efficient homes to track supply.

3. Capitalize on existing (and/or create) **high-quality continuing education** and designation training.

4. Work with the **MLS** community to ensure that **data** about home energy efficiency improvements are incorporated into **for-sale listings**.

5. Ensure that the **data** about home energy efficiency improvements are incorporated into the **appraisal process**.

6. Develop standards and **IT solutions** that allow quicker and more **automated transfer of data**.

7. Work with partner **financial institutions** to ensure selection of **qualified appraisers**.
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Certified Instructor NAR Green Designation
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Problem
Lack of Knowledge & Training

Many real estate professionals are ill-equipped to identify and value high performance homes.
Similar paths...
Stating the Obvious

Just as the vast majority of architects and builders do not have the training necessary to design and build a high performance home...

the vast majority of real estate professionals - appraisers, lenders, and Realtors® are also unfamiliar with high performance home construction methods and their benefits to the owner.
The Conundrum

Appraisers drive by looking in the rear view mirror

Appraisers need **market** evidence that energy efficiency is valued...
### Mechanic Street Passive House

<table>
<thead>
<tr>
<th>No.</th>
<th>Project</th>
<th>Builder</th>
<th>Location</th>
<th>Status</th>
<th>Certified</th>
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<tbody>
<tr>
<td>1262</td>
<td>Mechanic Street Passive House</td>
<td>Stephen C. DeMetrick Fine Woodworking</td>
<td>Wakefield, RI</td>
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<tr>
<td></td>
<td>Builder</td>
<td>Daniel Roy</td>
<td></td>
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<tr>
<td>QA/QC Rater</td>
<td>John Rodenhizer JSR Adaptive Energy Solutions</td>
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<tr>
<td>Constr. Type</td>
<td>Timber</td>
<td>Bldg. Function</td>
<td>Single Family</td>
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<tr>
<td>Project Type</td>
<td>New Construction</td>
<td>HERS Index</td>
<td>32</td>
<td>LEED Rating</td>
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<td>Energy Star Rating</td>
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<td>Heating Degree Days</td>
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<tr>
<td>Air-tightness</td>
<td>0.155 ACH50</td>
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<td></td>
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</tr>
</tbody>
</table>

### Valuation of Sustainable Buildings: Commercial

**Professional Development Program Registry**

<table>
<thead>
<tr>
<th>AI</th>
<th>Name</th>
<th>Company</th>
<th>City, State</th>
<th>Accepts Fee Assignments</th>
</tr>
</thead>
<tbody>
<tr>
<td>SELECT</td>
<td>Designated Member</td>
<td>Bradford Hevenor, MAI</td>
<td>Markus Appraisal Inc.</td>
<td>East Greenwich, RI</td>
</tr>
</tbody>
</table>

Source: Brad Hevenor, MAI Markus Appraisal, RI
Appraisers must be independent – they cannot influence the market

1. The **market must be convinced** that renewable energy and high-performance building features have value.

   **NOT the APPRAISER’S RESPONSIBILITY**
   
   Responsibility of the builders, designers, real estate brokers, certifying organizations, non-profits, and government agencies promoting high performance buildings.

2. Building technology must be **understood**.

3. The market reaction to the building features and attributes must be **measured**.

   **The APPRAISER’S RESPONSIBILITY**
Three Appraisal Methods – One Gets Used

Sales Comparison Approach (or Market Approach)

Most common method & required by Fannie Mae & Freddie Mac.

Cost Approach

Less common in use, but appropriate as support for adjustments to the Sales Comparison Approach when comparable homes lack Passive House features and benefits.

Income Capitalization Approach

Commonly used with income generating properties; though uncommon, use is appropriate with single family homes to support adjustments to the Sales Comparison Approach when energy savings are credibly documented as an income stream.
GAME CHANGER: Host Owned Solar PV

- PVValue Tool

- Think about homes with solar PV as a hybrid between a residential and commercial transaction...

- Pvvalue.com

- Takeaway: if you want to see contributory value for high-performance features add host owned solar PV
What the market will bear?

Let’s take a deep dive into the process of the real estate transaction from the perspective of the real estate professionals.
What the market will bear?
What the market will bear?
What the market will bear?
What the market will bear?
Lender – appraiser relationship...
Critical doc #2

- For Buyers, For Lenders
- What does the document do?
- Condition for accepting an offer
- Pass on to mortgage originator
- Then what?

- Download at: http://greenresourcecouncil.org/Appraisal-Links
Find an Appraiser

Search for a Designated member, Candidate, Practicing Affiliate, Affiliate and other individual not in one such category who has completed the Valuation of Sustainable Buildings Professional Development Program:

Residential

Commercial
Introduction to Green Buildings: Principles & Concepts
Case Studies in Appraising Green Residential Buildings
Case Studies in Appraising Green Commercial Buildings
Residential and Commercial Valuation of Solar
The Appraisal Institute’s Green Residential and Energy Efficient Addendum

Its reason for being

Documentation is critical – and this is the most critical doc that a qualified appraiser needs

Download PDF at: www.appraisalinstitute.org/assets/1/7/ResidentialGreenandEnergyEfficientAddendum.pdf
The objective of this Addendum is to standardize the communication of the high performing features of residential properties.

Identifying the features not found on the 1004 form provides a basis for comparable selection and analysis of the features.

Builders, contractors, homeowners, and third party verifiers are encouraged to complete this Addendum and present it to appraisers, agents, lenders, and homeowners.

Jeffrey Gephart, Vermontwise LLC
Start Providing Data for Appraiser Use Right Now

Be proactive regarding project appraisal and financing

Getting it right the 1\textsuperscript{st} time is less trouble than appealing bad appraisals

Fill out the Appraisal Institute’s \textit{Residential Green and Energy Efficient Addendum} and attach supporting documentation

Get the \textit{Addendum} into the mortgage application
Mainstreaming the HERS Index in the Housing Market
The RESNET - Appraisal Institute Partnership

Scott Robinson, MAI, SRA, AI-GRS
Appraisal Institute President
Provide Data!

With energy efficiency recognized as a new market influencer, appraisers can justify using cost data as secondary evidence to support adjustments identified under the sales comparison approach, where comparable homes are lacking.

**Cost Data Addendum for High Performance Homes V2** - developed here in the Pacific Northwest by Fiona Douglas-Hamilton at S.E.E.C., LLC

Can be downloaded at no charge

Provide Data!

**PV Value®**

This U.S. DOE supported web tool is used to help determine the value of a photovoltaic (PV) system installed on residential and commercial properties.

**Income Capitalization Method Tool**

https://pvvalue.com/

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*Jeffrey Gephart, Vermontwise LLC*
Another bit of info that is not going to make you happy
2nd bit of info that is not going to make you happy

#TheBadgeMatters
Know Your Rights
Communication Allowed Under Lending Guidelines/Dodd-Frank Act

Appraisers can talk with builders, brokers, agents, and sellers

Builders, brokers, agents, and sellers can provide the appraiser with documents

Builders, brokers, agents, and sellers can accompany appraiser on the inspection

Appraisers cannot be pressured by loan officer or others involved in the process to arrive at a value conclusion or to omit important facts

Source: High-Performance Appraisals: Steps for Success – August 7, 2013
Sandra Adomatis, SRA, LEED GA