



Appraisal Institute®

Professionals Providing Real Estate Solutions®



Appraisal
Institute®

How Energy Raters Survive (HERS) in the Real Estate Transaction

Presented by: James L. Murrett, MAI, SRA and
Sandra K. Adomatis, SRA, LEED Green Assoc., NAR GREEN

RESNET 2018
February 28, 2018, 10:30 am to 12:00 pm

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Meet the speakers



Appraisal
Institute®

James L. Murrett, MAI, SRA
AI 2018 President



Sandra K. Adomatis, SRA, LEED
Green Assoc., NAR Green



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Overview of the challenges our professions face

James L. Murrett, MAI, SRA

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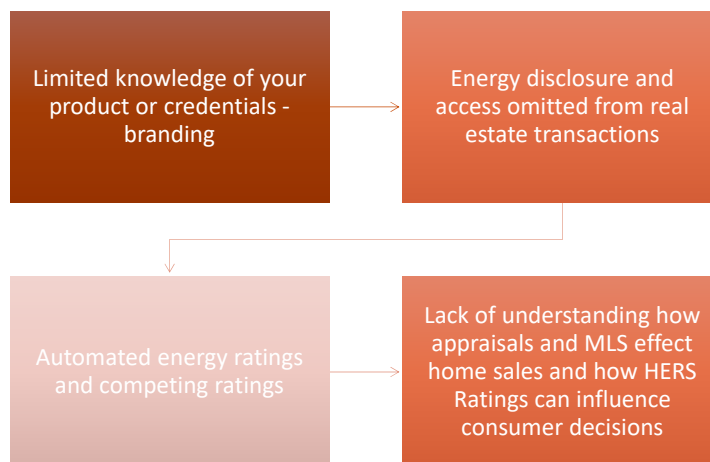
Top Issues Appraisers Face

- Lending world relying on automated valuation models instead of appraisals.
- Fees that are not commensurate with the skill, time, and liability involved in valuation. -Regulation
- Data limitations in the energy and green categories
- Age of existing professionals with new appraisers

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Top Issues Facing Energy Raters



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Top 3 Challenges Builders Face



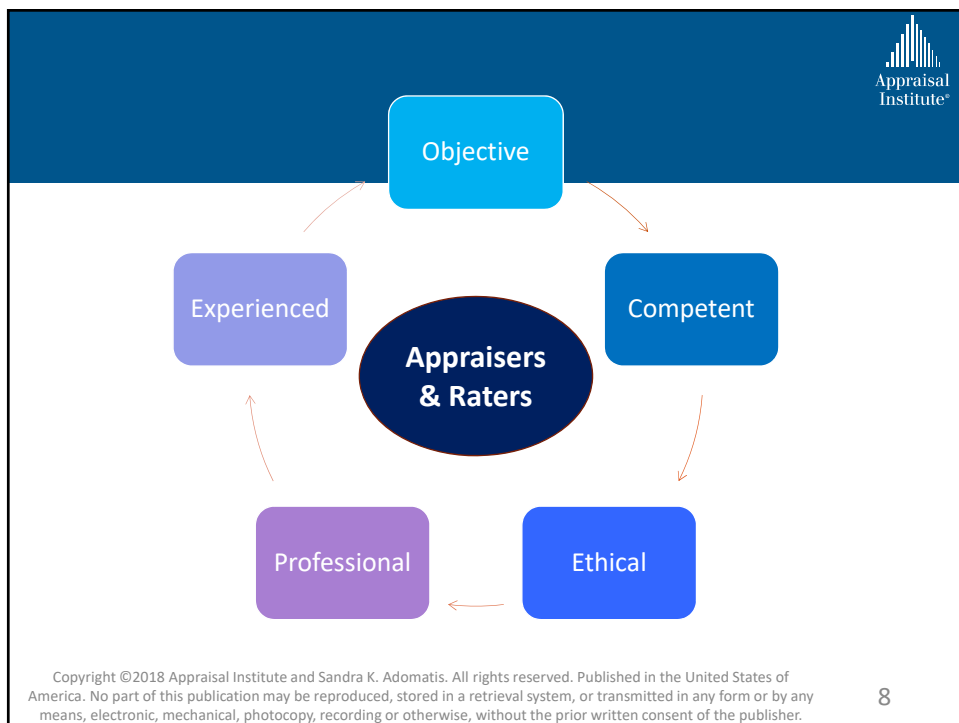
Ask any builder around the country about top challenges and you are pretty likely to hear three things:

- Cost and availability of attractive lots;
- Finding and cultivating skilled tradespeople; and
- Creating **high brand awareness** with prospective homebuyers.

Source: Thriving in a ZEN Landscape
Aug 2, 2017 4:01:45 PM By [Stacy Fitzgerald-Redd](#)

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Yesterday and tomorrow

Sandra K. Adomatis, SRA, LEED Green Associate, NAR GREEN

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These Badges Signify You Truly Have a Space-Age House.

<https://www.thespruce.com/gold-medallion-home-definition-1821516>

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What happened to these homes? (850,000)



The Edison Electric Institute and General Electric heavily promoted the program through magazine and newspaper ads, TV spots, and radio jingles. Future U.S. President Ronald Reagan even got on the bandwagon for all-electric living in his role of spokesman for General Electric.


On the builder's side, they received an allowance from the LBE* program. On the homeowners' side, electricity's clean, inexpensive, and safe advantages were touted.

<https://www.thespruce.com/gold-medallion-home-definition-1821516>

* Living Better Electrically

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The brand promoted:


Clean energy
Safety
Inexpensive
alternative
Oil or Gas Heat

Where are these
homes? Lost because
the brand was not
recorded.




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Branded-Not Recorded



- **1.8 Million ENERGY STAR® Homes in U.S.**
- **85,000 + ZE & ZERH Or Building Challenge Homes in U.S.**
- **2 Million Green Certified Homes in U.S. – best guess**
- **2000+? Passive Solar Homes in U.S.**
- **2 Million Homes with HERS Ratings**

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Over 1.8 Million ENERGY STAR® Rated Homes in U.S.- **Most Recognized Brand**



Find builders, raters, and incentives in your area by selecting a state from the dropdown menu below.

State:



https://www.energystar.gov/index.cfm?fuseaction=new_homes_partners.locator&s=mega

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"History repeats itself because no one was listening the first time."
Anonymous

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"Build it for today – Label and Record it permanently for tomorrow!"

Sandy Adomatis

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Do you know where this conversation is going?

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Appraisers and Raters Touch the Home Ownership Life Cycle – How will the next owner know our name? Better yet, our value?



HOME OWNERSHIP LIFE CYCLE

The home ownership lifecycle offers multiple touch points involving purchasing decisions with opportunities to achieve greater comfort, incremental energy savings and value

<https://energy.gov/eere/buildings/home-improvement-catalyst-hi-cat>



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When a seller or potential buyer asks a real estate agent who to call for a home energy rating, would you be one of the first three names?

- Does the **agent** know you exist? _____
- Does the market know how your service can influence their buying decision?
- Do the real estate market participants know your report may influence the appraised value.

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Are you building a BRAND for YOU?



- **Be You.** Your brand should reflect your passion, with a unique perspective and experience you bring to the job.
- **Create a Showcase of your work.** That might be a website illustrating your work, a YouTube, a photograph library of before and after work.
- **Give a valuable product.** Know the value of your service and how to articulate it to your customers.

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Are you building a BRAND for YOU?



- **Build a resource website.** Spend the money to build a unique professional website with resources on your service and hot topics.
- **Network.** Raters have been hidden too long. You must engage with the people needing your services. Be available to present interesting presentations for agents, builders, homeowner association groups, lending, and valuation groups. Make them **WANT** your service.

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Cradle-to-Resale Vision

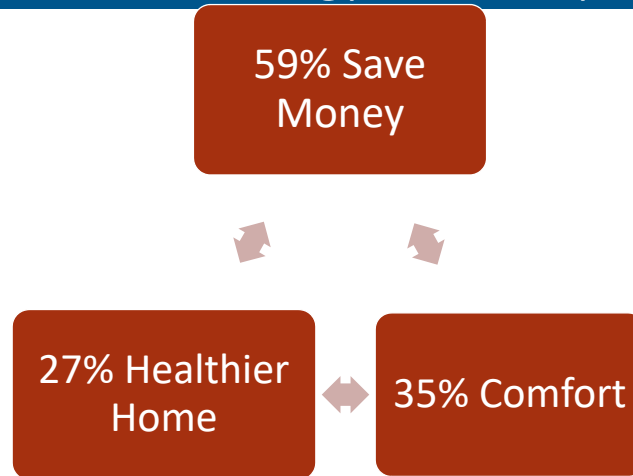


Design & Build	Rate & Label	Record - Document
<p>Design a high-performing house that exceeds current codes.</p> <p>Build to the higher standard.</p> <p>Build for tomorrow's buyer – don't get lost in yesterday's desires for housing.</p>	<p>Rate the house from Plans and Specifications</p> <ul style="list-style-type: none"> • A Projected HERS • Preliminary AIGREEA • A Preliminary House Label <ul style="list-style-type: none"> • ZERH • ZEN • ENERGY STAR® • Green Certified 	<p>Record the ratings and make them accessible to more than the first buyer.</p> <ul style="list-style-type: none"> • Label in electrical box • Completed AI Res. Green & Energy Efficient Addendum (AIGREEA) – Preliminary • Insist the labels you use are made accessible through a central database

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Top 3 Reasons Consumers Get Involved in Energy Efficiency



Source: Energypulse™ 2016 Special Report

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Our Worlds Must Connect




	Appraiser	Energy Rater	Real Estate Agent/Builder
Analyzes energy savings		X	
Measures Comfort		X	
Identifies Air Quality/Health Issues		X	
Develops Value/price for all these features	X		X

Can you see the reason your world must connect to the industry?
You provide the BIG DATA we need to provide a good service.


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Your brand starts with your ability to document your work and make it known to future owners of the property.



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Label it before it is finished for all to see!



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Just as building science changed –
so should your advertising.



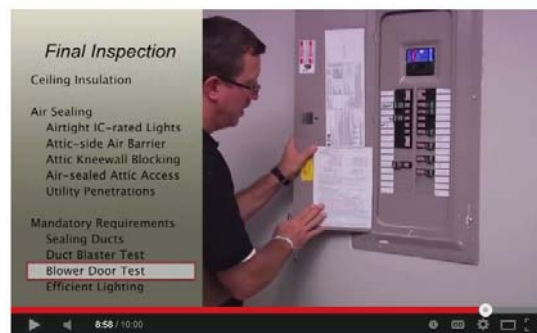
- Suggest features



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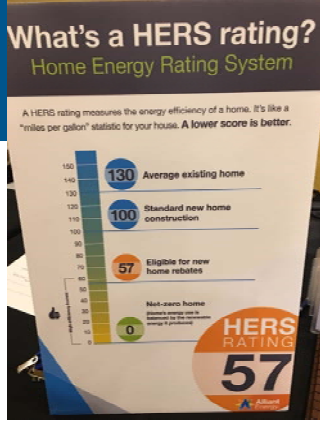

You can't afford not to post it in
the electrical box or near!



2012 Georgia Residential Energy Code Field Guide

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Advertise the Performance - Educate your customers

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What's a
HERS?



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Energy Raters are key to marketing, lending, and valuation



- Fannie Mae HomeStyle Mortgage requires HERS Full Report
- Appraisers must compare energy efficient features to those of comparable sales and if analysis determines an adjustment is warranted, it must be made. HERS Score is best measure for appraisers and least subjective for this feature.
- HERS Scores on houses gives lenders a reliable measure of efficiency and can be useful in underwriting.
- Listings with energy disclosed have fewer days on market and sales price premiums in some markets.

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Case Study




Builder reports a HERS Rating was completed but not ready yet.

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X

4162 Mermell Cir
North Port, FL 34291

**This Home's
HERS Index Score**



Rating Company:
Calcs-Plus

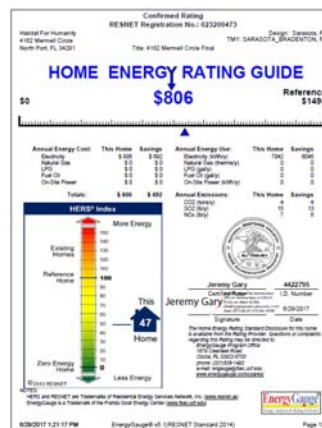
Rating Date:
June 28, 2017

<http://www.resnet.us/public-access-to-resnet-national-registry>

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Projected HERS
Rating is a must
for new
construction to
allow the
appraiser data
needed to value
the energy
efficiency.



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Habitat Builds House with Five Labels



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Same Floor Plan Next Door to prior Case Study Appraisal Results



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Sales Data in Neighborhood – All Code-Built



#	ML Number	Close Date	Sq Ft Heated	Current Price	SP/SqFt	Beds	Baths	Year Built	Pool
1	C7229463	6/23/2017	1,348	\$170,650	\$126.59	3	2	2017	None
2	C7226399	8/12/2016	1,540	\$171,150	\$111.14	3	2	2016	None
3	C7228403	8/10/2016	1,437	\$174,900	\$121.71	3	2	2016	None
4	C7230646	3/17/2017	1,227	\$178,900	\$145.80	3	2	2017	None
5	C7226415	9/24/2016	1,540	\$178,150	\$115.68	3	2	2016	None
6	C7226509	8/15/2016	1,437	\$181,900	\$126.58	3	2	2016	None
7	C7225176	8/19/2016	1,437	\$182,900	\$127.28	3	2	2016	None
8	C7236968	4/24/2017	1,437	\$186,900	\$130.06	3	2	2017	None
9	C7230418	12/2/2016	1,415	\$187,000	\$132.16	3	2	2016	None
10	C7217526	9/24/2016	1,540	\$190,250	\$123.54	3	2	2016	None
11	C7236482	6/5/2017	1,437	\$191,900	\$133.54	3	2	2017	None
12	C7236946	5/26/2017	1,437	\$191,900	\$133.54	3	2	2017	None
13	C7232250	4/18/2017	1,540	\$194,750	\$126.46	3	2	2016	None
14	C7230273	4/21/2017	1,546	\$198,500	\$128.40	3	2	2017	None
15	C7231761	1/18/2017	1,437	\$203,000	\$141.27	3	2	2016	None
16	A4171079	1/30/2017	1,437	\$226,000	\$157.27	3	2	2016	Yes
Mean			1,450	\$188,047	\$130.06				
Median			1,437	\$186,950	\$127.84				

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Appraised Value \$5,000 under the lowest sale priced code-built house



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What went wrong?

- Appraiser without knowledge of the labels or construction type
- No Preliminary HERS provided
- No Preliminary Green Score Sheet Provided
- No AI Residential Green & Energy Efficient Addendum
- Builder had no vision for cradle much less the resale



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AI Res. Green & Energy Efficient Addendum 820.05

James L. Murrett, MAI, SRA

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The
Addendum is
now mapped
to the Real
Estate
Standards
Organization
Dictionary –
(RESO)

Energy Raters have
the data to
complete the AI Res.
Green & EE
Addendum

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Data Dictionary

What is the Data Dictionary? It's Real Estate's "Rosetta Stone"

The Data Dictionary serves as the real estate industry's "Rosetta Stone" for real estate data. Hundreds of MLSs, and other source providers gather data. *But what good is it if the data cannot be shared or understood?* The Data Dictionary ensures that each system "speaks" the same language. It is the common standard that defines real estate data in consistent terms and data structures; a template data providers may follow to format its most common fields. [Data Dictionary Acknowledgements](#)

How do I find the Data Dictionary?

The RESO Data Dictionary is a collection of web pages and can be found at: [Data Dictionary Home Page](#). The home page contains links to the most recent Data Dictionary versions and brief explanation how to use the Data Dictionary. It also includes an explanation on Data Dictionary Certification with links to additional certification details. The most current Data Dictionary version (as of the time of this writing, Jan 2018) is [Data Dictionary version 1.6](#).

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<https://www.reso.org/data-dictionary/>

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The Addendum
is mapped to
the Mortgage
Industry
Standards
Maintenance
Organization –
(MISMO)

Energy Raters have
the data to
complete the AI Res.
Green & EE
Addendum

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MISMO is the Language of Lending

Through broad industry collaboration, MISMO creates standards that support solutions to the industry's toughest business issues, reduce costs, and improve transparency and communications in housing finance.

<http://www.mismo.org/>

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Energy Raters have the data to complete the AI Res. Green & EE Addendum

When you complete the Addendum, you are connecting your service to marketing, lending, and valuation.

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Liability Considerations



- Appraisers, real estate agents, builders, and energy raters are all in the line-up for liability when something goes wrong. The HERS Report is a valuable document, if your product proves to be a reliable product.
- RESNET has quality control in place and appraisers have scrutiny of our work from a number of reviewers and underwriters.

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 AI Reports® Form 820.05*	Client File #:	Appraisal File #:	
	Residential Green and Energy Efficient Addendum		
	Client:		
	Subject Property:		
	City:	State:	Zip:
Additional resources to aid in the valuation of green properties and the completion of this form can be found at http://www.appraisalinstitute.org/education/green_energy_addendum.aspx			
The appraiser hereby certifies that the information provided within this addendum: <ul style="list-style-type: none"> • has been considered in the appraiser's development of the appraisal of the subject property only for the client and intended user(s) 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 user(s) 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. Extraordinary assumption: Data provided herein is assumed to be accurate and if found to be in error could alter the appraiser's opinions or conclusions. • is not made as a representation or as a warranty as to the efficiency, quality, function, operability, reliability or cost savings of the reported items or of the subject property in general, and this addendum should not be relied upon for such assessments. <p>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 classic building design concerns of economy, utility, durability, and comfort (US EPA). High Performance building and green building are often used interchangeably.</p> <p>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 environmental quality, and (6) maintenance and operation. The energy and water elements are the most measurable elements of green or high performance housing. Appraisers need savings amounts to develop an income approach to support energy efficient contributory value.</p>			
https://www.appraisalinstitute.org/assets/1/7/ResidentialGreenandEnergyEfficientAddendum.pdf			
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CA Study addresses MLS Listing weaknesses



This study clearly showed the marketing needs to be improved and it may result in higher sales price premiums. Energy reports and AIRGEEA attached to the MLS are great documents to influence decision-making.

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Appraisers' Analysis of Pearl National Home Certification Sales Premiums

VA Study shows how
MLS Attachments and
good marketing can
result in better sales
price premiums.

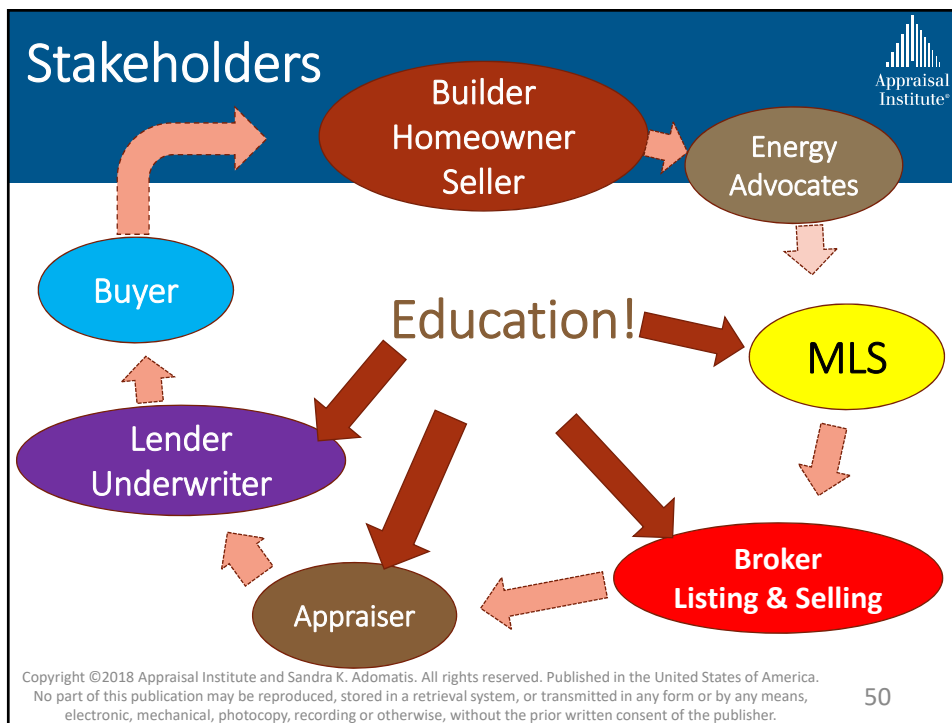


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†



Resources



Appraised Value and Energy Efficiency: Getting it Right

https://www.appraisalinstitute.org/assets/1/29/AI-BCAP_Flyer.pdf

While location, design, and price are a home buyer's main considerations, surveys show that buyers rank energy efficiency as one of the most desirable features, and importantly, when there is sufficient energy savings - [one they're willing to pay more for](#). However, energy efficiency can be overlooked in the appraisal process for a variety of reasons, including a lack of access to quality data, underwriting impediments, and appraiser qualifications. Many appraisers may not be aware of the unique features of an energy efficient home. However, there are many specially-trained appraisers who are qualified to assess the value of these features that are often hidden behind the drywall. One way to know that a home is built energy efficiently is to know which energy code it was built to.

According to the U.S. Department of Energy, homes built to the 2012 or 2015 International Energy Conservation Code (IECC) are 15-16% more efficient than those built to the 2009 IECC or earlier. They will be more comfortable to live in and have lower monthly energy bills.



Fannie Mae, Freddie Mac and FHA

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FOR BUYERS: ASSURING A COMPETENT APPRAISER FOR YOUR NEW HOME

Congratulations on choosing an energy efficient, high-performing home!

Your new home was built to higher energy efficiency standards that will improve your quality of life. Your home will be more comfortable to live in and have lower monthly energy bills than other newer homes on the market. According to the U.S. Department of Energy, homes built to the 2012 or 2015 International Energy Conservation Code (IECC) are 15-16% more efficient than those built to the 2009 IECC or earlier. Some of your home features may include:

- ☐ More wall and ceiling insulation to keep conditioned air inside your home
- ☐ Windows that keep the heat out in the summer months to improve comfort
- ☐ Fewer drafts and air leaks, which improves indoor comfort

What You Need To Know Regarding the Loan/Appraisal Process

As part of the typical loan process, lenders randomly assign an appraiser to determine the appraised value of a new home. However, yours is not a typical new home – it is a high-performing building with unique features. Fannie Mae, Freddie Mac and FHA guidelines require appraisers to be competent in the property type they are appraising. If you do not clearly identify the property as a special property type requiring a competent appraiser trained in energy-efficient, high-performance homes, a typical appraiser will be assigned, and these features may not be taken into account, which will put your appraisal at risk of not being competently appraised.

What You Need To Do

Provide your lender with three things provided to you by your builder:

- ☐ The lender letter regarding this special property type and the need for a trained, competent appraiser for energy-efficient, high-performing homes.
- ☐ The Appraisal Institute's Residential Green and Energy Efficiency Addendum, completed by your builder.
- ☐ The Home Energy Rating System (HERS) Report (if available).

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FOR LENDERS

Dear lender,

The new home located at: _____ is a special property type. It is an energy efficient, high-performing home that meets the stringent energy efficiency requirements of the code checked below:

- ☐ 2012 International Energy Conservation Code (2012 IECC)
- ☐ 2015 International Energy Conservation Code (2015 IECC)

A copy of the Green and Energy Efficient Addendum form, and the HERS report (if available) should be included with the appraisal engagement letter. Fannie Mae, Freddie Mac and FHA guidelines require lenders to choose competent appraisers who have the requisite knowledge required to perform a professional quality appraisal for the specific geographic location and particular property type. As a high-performing, energy efficient home, it requires an appraiser that is competent to assess the value of the green and/or energy efficiency features in the local real estate market.

You can access a list of qualified appraisers at the *Valuation of Sustainable Buildings Professional Development Program Registry*, available at http://www.myappraisalinstitute.org/findappraiser/green_sustainability_residential.aspx. These specially trained appraisers have completed 28 hours of education and passed three exams. If the appraisers on your panel are not on this list, they can complete 14 education hours online to get started: http://www.myappraisalinstitute.org/education/course_descr/default.aspx?prgrm_nbr=826&key_type=CO.

Appraisers on this list are not required to be Appraisal Institute members but must take the required courses and pass the exams to be listed.

If you have questions, please contact our representative at:

NAME: _____
PHONE: _____
EMAIL ADDRESS: _____

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Appraisal Institute's Green Registry



Valuation of Sustainable Buildings

Title	Hours	State Approval
Introduction to Green Buildings	8	State Approval
Case Studies in Appraising Green Residential Buildings	8	State Approval
Residential and Commercial Valuation of Solar	15	State Approval
Case Studies in Appraising Green Commercial Buildings	15	State Approval

FAQs

[Program Registry – Residential](#)

[Program Registry – Commercial](#)



<http://www.appraisalinstitute.org/education/your-career/professional-development-programs/>

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AI Residential Green and Energy Efficient Addendum
Guide – How to Complete it and how it relates to
appraisal, listing, and lending.

*Coming
Soon*

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Thank You for Attending



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