



Appraisal Institute[®]

Professionals Providing Real Estate Solutions

**Greening the Existing
Stock of Single-Family
Homes Forum**



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Appraisal Issues and Considerations

Presented By:

Bill Garber

Director of Government and External Relations

Appraisal Institute

Appraisal Reality



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From an AI member (received yesterday):

“I recently worked on an appraisal for a LEED Platinum home. It is the only one in the state. I have a rather sophisticated ROI Excel sheet for the solar panels. To make a long story short, the lender would not allow any adjustments with any direct comparables. There are almost zero closed sales with PV systems. I fought the good fight and all it did was get me sanctioned by the Appraisal Management Company (AMC).”

Appraisal Reality



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- With this one case, a host of complications
 - Questions should be asked of the lender before the appraisal is started
 - Appraiser may need to ask the lender to put in writing how they will underwrite the PV system. If they tell you up front, they do not include them in the value of the home appraiser may need to take further steps to cover themselves
 - Appraisal scope of work may need to include the lender instructions. The appraiser may also want to make a hypothetical condition stating the lender has insisted no value be attributed to the PV system even though you have support for an adjustment. The borrower should know this up front as well to avoid a long argument and series of phone call from them



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Appraiser Challenges

- **Data**
 - We would all like to see paired sales to prove our adjustments in the market but at this time, we do not have sufficient sales to provide that analysis.
 - There are market studies being done that may soon give us some more support or guidance.
- **Communication**
 - Appraisers are often not provided necessary information to complete a thorough analysis of the market
- **Procurement Processes**
 - The current appraisal procurement system is wholly deficient to address these issues

Appraisal Institute Actions



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- Education
 - We developed education on this subject nearly a decade ago
 - We've hosted a series of webinars, seminars and courses on the subject
 - Our latest offering is a Professional Development program on the Valuation Sustainable Buildings
 - Introduction to Green Buildings
 - Case Studies in Appraising Green Residential Buildings
 - Case Studies in Appraising Green Commercial Buildings
- Public Policy
 - SAVE Act, GREEN Act
- Appraisal Forms
 - Residential Green and Energy Efficient Addendum

Valuing Green Buildings: Residential



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Appraisal Considerations: The Cost Approach

- Consider value of green features
- What are energy savings?
- What is the economic life of a green feature?
- Do green features add or detract from curb appeal?
- What are the current costs to replace green products?

Valuing Green Buildings: Residential



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Appraisal Considerations: The Sales Comparison Approach

- Observe instillation of energy efficient features
- Rely on paired data analysis
- Note adjustments will be based on contributory value – not cost

Valuing Green Buildings: Residential



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Appraisal Considerations: The Income Capitalization Approach

- Applicable for two- to- four-unit or non-owner occupied properties (see slides on commercial appraisal considerations)

Valuing Green Buildings: Commercial



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Appraisal Considerations: The Income Approach

- *Green building investment hypothesis*
- Note property revenue
- Verify turnover rates
- Record rate of absorption
- Use DCF analysis
- Record value impact of incentives

Green Building Market Acceptance



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Critical Mass and Market Recognition

- Green building demand
- Climate change
- Improving public image
- Global emphasis on carbon reduction and neutrality
- Personal satisfaction
- Costs Savings



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Questions?



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Thank You!

Bill Garber

202-298-5586

bgarber@appraisalinstitute.org

To learn more about the Appraisal Institute:

www.appraisalinstitute.org