

Home Appraisers Qualitative Market Research Study

Market Research

PREPARED BY

Curtis Research Associates

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ENERGY
EFFICIENCY
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**Northwest Energy
Efficiency Alliance**

**Home Appraisers
Qualitative Study**

Final Research Report

Conducted December 2009

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I. Executive Summary

The Northwest Energy Efficiency Alliance (NEEA) promotes energy-efficient homes through its Northwest ENERGY STAR Homes program. The program encourages builders to differentiate their homes by constructing them to ENERGY STAR standards. The program also strives to generate demand for ENERGY STAR homes by educating real estate agents about the benefits of energy efficiency and ENERGY STAR homes so they can, in turn, educate homebuyers.

Historically, the program has given only limited attention to residential appraisers. To determine if it would be beneficial to focus more efforts on appraisers, NEEA commissioned a qualitative research project. The objective was to learn more about the appraisal business and the appraisal process to ascertain if there is an opportunity to better differentiate ENERGY STAR homes by working more closely with appraisers. The research, which was conducted in December 2009, included four focus groups with residential appraisers in Seattle and Spokane.

Key Research Findings

Recent Changes in the Appraisal Industry

The recent collapse in the housing market led to the establishment of a set of guidelines under the Home Value Code of Conduct (HVCC) that, among other things, changed how appraisers are selected to conduct home appraisals for any mortgage that will be sold to Fannie Mae or Freddie Mac. As of May 2009, mortgage brokers and realtors are prohibited from selecting or recommending appraisers. Most lenders now work through appraisal management companies (AMCs) to have appraisals conducted. The AMCs hire appraisers for each assignment, assigning work on a revolving basis. AMCs do not differentiate between experienced appraisers and those new to the business; nor do they consider familiarity with a neighborhood when assigning work.

AMCs have raised the cost of appraisals to homebuyers but have reduced the fee they pay to appraisers, sometimes by as much as 40% to 60%. AMCs keep the balance of the fee for themselves. Additionally, some AMCs try to increase their margin by shopping for appraisers by price, looking for the appraiser willing to take the job for the lowest fee.

The shift to AMCs has resulted in an increase in the work to complete an appraisal. Appraisers are now required to include more information to substantiate the assessed value—more photos, more comparable properties, longer narrative explanations, and they must complete a new market conditions form. On average, appraisal reports are taking an extra two hours to complete.

Appraisal Process

The first step in the appraisal process is to gather as much information as possible on the subject property. Appraisers check county records and Multiple Listing Service (MLS) data for details, and get information from the homeowner. The research also includes an initial search for potential comparable properties, known as comps.

The next step is to conduct the inspection. Appraisers consider observable features of the home. This includes noting amenities as well as problems, and anything out of the norm given the era and style of the home. Appraisers also look for structural or safety red flags that might warrant inspection by a specialist.

Next, appraisers select the comps they will use for a sales comparison analysis, which is how they determine the value of the subject property. The objective is to find comps that are similar to the subject in size, style, age, quality of construction and location. Comps are typically drawn from sales that have closed in the last 12 months, but may include active listings and pending sales. The more unique a house, the more difficult it can be to find appropriate comps. Typically, the acceptable variance among appraisals is 3% to 5%. For a unique, high-end home, the variance could be as much as 10%.

Appraisers often calculate a value based on the cost approach. This is the cost to reconstruct the house, less depreciation, plus land value. While both values are typically included in the appraisal report, the sales comparison value is the one underwriters use for lending purposes. The primary component of the appraisal report is the Uniform Residential Appraisal Report form, which was developed by Fannie Mae. Each AMC or lender may also have additional guidelines and addenda that they require as part of the report.

Research participants stressed that appraisers do not set the market value for homes; they merely measure and report it.

Green Homes

There is ample confusion and misunderstanding among appraisers when it comes to green homes. Research participants were generally aware that there are different levels of green homes, but there was little understanding of what accounts for these differences or what the full array of features and components of a green home might include.

Appraisers do not approach the evaluation of a green home any differently than they do any other home. That is, they don't look for any specific green attributes. They may not even know a home is green until the inspection, when they learn about it from the homeowner or builder.

The key to assessing the value of a green home is to find other similar homes for comparison. The sales comparison will reveal if the market places a premium on green homes. A few participants indicated that they would be likely to assign a higher value to a green home if the home were certified green; if it were located in certain neighborhoods within Seattle; or if it could be demonstrated that energy costs would be substantially less. However, they pointed out that the price premium may not be sufficient to cover the added costs of building a green home. Conversely, most participants felt there was no evidence within the market to support a price premium for green homes.

Energy Efficiency

In general, energy efficiency does not get much attention from appraisers. Reasons cited for this included: (1) lack of evidence that energy costs are among homebuyers' top decision-making criteria; (2) lack of information about a home's overall energy efficiency or the efficiency of

individual components (nor is this information available for comps); and, (3) among newer homes, a perception that there is little difference in energy efficiency because of building codes.

If an appraiser does make an adjustment for energy-efficient items, windows are the most likely item to draw their attention. Conversely, while the type of heating is always specified in the appraisal report, the energy efficiency of the system is rarely considered. However, an adjustment may be made for the overall quality of the system. For example, heat pumps are generally considered to be superior to electric baseboard heating, in part because they include cooling.

ENERGY STAR Homes

The ENERGY STAR name was familiar to research participants, yet familiarity with ENERGY STAR homes varied widely. Only a few participants had a good understanding of them.

A common confusion among research participants was the distinction between ENERGY STAR certification and green certification. Many referred to the two types of certification interchangeably, not realizing that an ENERGY STAR home may not be a green home. Another misconception was that ENERGY STAR homes cost many thousands of dollars more to build, yet yield only modest energy savings.

Many considered ENERGY STAR certification to be inconsequential to the appraisal process because they don't believe that consumers value energy efficiency when buying a home; therefore it wouldn't influence the appraised price. A few also noted that it wouldn't be a factor if all the comparable properties were also ENERGY STAR homes. However, some were open to the possibility that it might add value in some neighborhoods.

A few participants noted that they would be more likely to treat an ENERGY STAR home as an upgrade and would give it a higher quality rating, but would not adjust for it under energy-efficient items.

Nonetheless, they cautioned that learning more would not cause them to appraise ENERGY STAR homes higher; that would be up to the market. To attract appraisers to ENERGY STAR training sessions, the classes need to count towards continuing education hours.

To make energy efficiency more of a priority in the market, appraisers urged NEEA to work with realtor boards to add energy efficiency information and certification to the property data forms. If this information is routinely reported, it will create more awareness among homebuyers.

Conclusions

There is an opportunity for NEEA to work more closely with appraisers to increase awareness of energy efficiency, and to raise the profile of ENERGY STAR homes among this segment of the market. Many research participants were open to attending training sessions to learn more about energy efficiency in general and ENERGY STAR homes in particular. By learning more, they felt they would be in a better position to recognize energy efficiency features in the field, and to make informed decisions about whether it's important to the market.

NEEA should also work throughout the region to encourage realtor boards to revise property forms to include information on energy efficiency attributes and certification. This would help to increase awareness of energy efficiency among homebuyers. It would also give appraisers the information they need to include energy efficiency in sales comparison analyses.

II. Introduction

A. Background & Research Objectives

The Northwest Energy Efficiency Alliance (NEEA) is a non-profit corporation supported by electric utilities, public benefits administrators, state governments, public interest groups, and energy efficiency industry representatives that operate in the states of Idaho, Montana, Oregon, and Washington. These entities work together to make affordable, energy-efficient products and services available in the marketplace. This includes Northwest ENERGY STAR Homes.

Since 2004 NEEA has promoted the construction and sale of new homes built to ENERGY STAR Homes Northwest specifications. Historically, the program has worked with builders to differentiate their homes by encouraging them to build to the ENERGY STAR Homes specifications. The program has also worked to educate real estate agents on energy efficiency in general and ENERGY STAR Homes in particular. In turn, realtors educate home buyers about the benefits of energy efficiency and ENERGY STAR Homes.

The Northwest ENERGY STAR Homes program has also provided some training on ENERGY STAR Homes to residential appraisers; however, work within this segment has been limited. In reality, it is a segment of the housing industry about which program representatives know little. To determine if it would be worthwhile to devote more resources to working with residential appraisers, NEEA commissioned Curtis Research Associates to conduct a qualitative research study to learn more about appraisers and the appraisal process.

The objectives of the research included the following:

- ♦ Understand the structure and function of home appraisals, and explore any significant changes that have occurred in the past three years.
- ♦ Discover how home appraisers market their businesses.
- ♦ Determine factors that play a critical role in the appraisal process.
- ♦ Identify the players that determine which home features are included in an appraisal.
- ♦ Explore awareness, perceptions and importance of “green” and energy-efficient homes among appraisers.
- ♦ Determine to what degree green and energy-efficiency features are currently considered in the appraisal process.
- ♦ Identify changes that would need to be made in order to include energy efficiency as part of the appraisal review.

B. Methodology & Research Participants

To learn about residential appraisers and the work they do, Curtis Research Associates conducted four focus groups during the week of December 14, 2009. The focus groups were held in Seattle and Spokane.

The table below outlines the number of appraisers who took part in each research session.

Table 1
Number of Participants by Group

Total	Seattle Group 1	Seattle Group 2	Spokane Group 1	Spokane Group 2
37	10	10	10	7

Research participants included a cross-section of appraisers from each area. To qualify to take part in the research, participants were screened based on the following criteria:

- ♦ Must be a certified residential appraiser or a certified general appraiser who works primarily within the residential market;
- ♦ Must have appraised a minimum of 10 homes in the past 12 months; and
- ♦ Must have been a real estate appraiser for a minimum of three years, including two years of apprenticeship.

In actuality, nearly all participants were certified residential appraisers, with only one who was a general appraiser. Most were also highly experienced, averaging 15 years in the business. Furthermore, most had conducted between 100 and 300 appraisals over the last year.

III. Background Information on Appraisal Industry

A. Recent Changes in the Appraisal Industry

The residential appraisal industry has undergone substantial changes in the last year. As a response to the collapse of the housing market, the Home Valuation Code of Conduct (HVCC) established a set of guidelines for, among other things, how appraisers are selected for conducting residential appraisals for any mortgage that will be sold to Fannie Mae or Freddie Mac. Since Fannie Mae and Freddie Mac purchase the majority of mortgages issued, the HVCC, which went into effect May 1, 2009, has had widespread impact.

While the purpose of the HVCC was to reduce the potential for loan officers to exert pressure or influence appraisals, there was widespread frustration among research participants about the adverse impacts of the HVCC on the appraisal business. Many participants felt as though appraisers have been made the scapegoats for the collapse of the housing market.

- ♦ “There were some big lenders that were involved in pressuring appraisers. A lot of it was coming through the mortgage broker industry. That resulted in the HVCC, which is killing a lot of shops right now.”

One of the most fundamental changes as a result of the HVCC is that mortgage brokers and realtors are prohibited from selecting or recommending appraisers, as they had typically done in the past. Nor can they discuss the appraisal process with appraisers. This change has short-circuited how most appraisers get assignments.

- ♦ “You’re not allowed to have contact with loan officers. They can’t give you work. They used to be able to give you jobs.”

Previously, appraisers marketed their businesses directly to loan officers and realtors. Through personal contacts and quality work, they developed relationships that produced a stream of work. For the most part, that has come to an end. Now most lenders work through appraisal management companies (AMCs) to have an appraisal conducted. While AMCs are not new to the industry, this change has led to a surge in the number of AMCs operating. According to research participants, many of those who work for AMCs have little knowledge of or experience with appraisals.

- ♦ “Picture any other business where you develop relationships, a book of business, you’re in a networking group or you join Rotary or whatever and you have all these contacts. Then all of a sudden somebody says ‘You may no longer speak to these people.’”
- ♦ “When HVCC went into effect...basically what happened was that it sparked an entire new industry. It sparked this middleman called the AMC. A whole bunch of people that knew nothing about real estate, knew nothing about appraisals, said ‘We can make a really good buck here.’ You suddenly had all these companies come online that...are morons. They have no clue what appraisals are about.”

Instead of assigning appraisals based on merit, AMCs assign work on a revolving basis. This means that rather than marketing their businesses, appraisers try to get on the approved list for as many AMCs as possible. This has left appraisers in the uncomfortable position of simply having to wait for an order to come in. It also means that appraisers with years of experience are treated identically to those who are new to the business.

- ♦ “It’s not merit-based. It’s just signing up for rotation.”
- ♦ “You can take someone with years and years of experience and a lot of education and they throw them into the pot with the guy that started last week. In their eyes we are all the same.”

Another frustration with the AMCs is that they have raised the cost of an appraisal to home buyers, but reduced the fee paid to appraisers. In the past, all or most of the appraisal fee would go to the appraiser. Now, according to research participants, AMCs typically charge between \$450 and \$650 for an appraisal, and keep as much as 40% to 60% of the fee for themselves. Furthermore, some AMCs try to increase their take by shopping for appraisers by price; they look for the appraiser willing to do the job for the lowest fee.

- ♦ “They say that it's a symbiotic relationship between the AMC and the appraiser rather than a parasitic relationship. What they really did is they took all of our business away and now they're selling it back to us.”

Participants also criticized the AMCs because they typically give no consideration to an appraiser’s familiarity with the neighborhood in which the house is located. Research participants felt strongly that this undermines the quality of appraisals. They stressed the importance of familiarity with the local market in order to accurately gauge a home’s value. Because AMCs are shopping for an appraiser willing to take the work for the lowest rate, many inexperienced appraisers end up doing work in areas about which they know little or nothing.

- ♦ “That's one of the big frustrations with AMCs right now is because you get your work on a rotation basis. So you don't know who's going to be getting an assignment in any particular area. ... [The AMC was] sending people to Medina from Centralia or some godforsaken place to do these appraisals. These AMC people don't know! They're clerical people sitting there. They're just assigning. They don't understand that they really need to go to the people in their local area who know that area.”

Another adverse impact of the shift to working with AMCs is that it has caused an increase in the work required to complete an appraisal. AMCs require appraisers to include more information to substantiate the assessed value. This includes providing more comparables (also known as comps), more photos, longer narrative explanations and completion of a new market conditions form. Appraisers estimated that they are putting in an extra two hours or more per appraisal.

- ♦ “Our workload is so much greater than it used to be. The number of comps that are required, the amount of data, the 1004MC, which is a new form.... It’s a market conditions addendum. ... The amount of time it takes to write an appraisal is at least 50% more than it used to be. Yet my fees have dropped 30%.”

In addition to the increase in work required to complete an appraisal, research participants indicated that there has also been a substantial increase in the scrutiny of appraisal reports. Some noted that in the past, reports were rarely reviewed. Now, reports routinely go through at least one of three levels of evaluation. The first level is often an automated computer evaluation; beyond that is a desk review or a field review. Appraisers complained that many of the AMC reviewers have little appraisal experience, so they often request additional information, which means even more work for the appraiser.

- ♦ “Instead of having another qualified appraiser looking at the appraisal, looking at the big picture and saying ‘This is a reasonable appraisal,’ you have people with no appraisal experience or even automated systems that will kick back criteria, which equates to additional time.”

A small but fortunate portion of research participants have been able to avoid working with AMCs altogether, or have minimized the amount of work they do for them. Some do work for banks with internal appraisal departments that operate separately and independently from the loan officers; thus they don’t need to go through AMCs. Others work with banks that are hard money lenders. Since they are not reselling mortgages to Fannie Mae or Freddie Mac, they do not fall under the HVCC. Another alternative for appraisers is to do work for attorneys. However, most appraisers do not have the luxury to do this type of work, given that it is a small part of the appraisal market.

B. Requirements for Becoming an Appraiser

Appraisers must be licensed by the state(s) in which they practice; however, many states, such as Oregon and Washington, have reciprocal arrangements. To become a certified residential appraiser in Washington requires an associate’s degree or higher, 200 hours of real estate appraisal courses, and a minimum of two years and 2500 hours of supervised work experience. After these requirements are met, the appraiser must pass a state exam in order to be certified.

Because of the changes in the industry, research participants explained that it will be much more difficult for new appraisers to enter the business. There is no longer an incentive for an appraiser to take on a trainee because AMCs require the supervising appraiser to inspect every property they sign on. Given the reduction in fees, appraisers simply can’t afford to have two people work each assignment.

- ♦ “It is not cost-effective to send two people out on a \$300 assignment.”

C. Misperceptions about Appraisers

When asked what some of the biggest misperceptions were about appraisers or the appraisal process, many participants pointed to a lack of understanding and appreciation of appraisers as professionals. They stressed that it takes substantial knowledge and work to do what they do. They feel they do not receive the respect they deserve. They also feel there is a lack of understanding about all that goes into an appraisal. Too many people assume that assessing a property is a matter of snapping photos and walking through a home.

- ♦ “I think the big problem is that the majority of users of appraisal services don’t look at appraisers as professionals at all. ... You don’t just say ‘cheapest, quickest MD there is,’ but that’s the way they do it with appraisers.”
- ♦ “It’s just a plain lack of respect. ... It takes a lot of knowledge to do what we do. I think most people misunderstand what actually is entailed in completing an appraisal from start to finish. They have the misconception that we drive around and shoot pictures of houses and that’s all we do.”

If they could change anything about the appraisal system, most participants would like to eliminate AMCs.

IV. Appraisal Process

While appraisers may have slightly different methods for going about their jobs, they all essentially go through the same steps. The first step includes one to two hours of research to gather as much information as possible on the subject property. This includes checking county records and Multiple Listing Service (MLS) data for details about the house and getting information from the owner. The research also typically includes an initial search for potential comparables.

- ♦ “You find out what the house is, the age. You get all the legal data. Look at the MLS to see if it had a prior sale. You call the owner. You ask him what he has, quiz him a little bit...you get as much data as you can. I look at the neighborhood. I start pulling comparable sales that I think might fit. Then I go out and do the inspection.”

The next step is conducting the inspection, which typically takes 30 to 60 minutes depending on the home’s size and amenities. As an appraiser approaches the house, he or she is evaluating the surrounding neighborhood, the street and the traffic. The appraiser walks around the exterior of the house, evaluating its condition and measuring its footprint. The appraiser will also take numerous photos, both inside and outside the house, to document what he or she is seeing.

Once inside, an appraiser is typically inspecting the house at a macro level. That is, they are considering observable features of the home, making note of amenities as well as problems, and looking for anything out of the norm given the era and style of the home. According to participants, the standard of inspection is “what a buyer would be looking at.”

- ♦ “There’s always an assessment of condition of quality of every feature of the house, if it’s observable.”

The inspection includes evaluating the quality, materials and condition of each room. For example, an appraiser will assess the overall quality of the kitchen, including listing the appliances that are built in, but they typically do not specify the brand of appliances. The exception would be a high-end home, in which case it may be important to note high-end brands and other amenities. In either case, the appraisal would typically not include an assessment of the energy efficiency of the appliances.

- ♦ “[We are looking at] everything: the quality, the condition, the materials used, the floor plan, the utility, the different updates or changes that they’ve made. Anything.”

The appraisal report form includes a place to specify the type of heat in the home. Depending on the circumstances, the heating system may or may not impact the assessment of value. A heat pump, for example, may positively impact value relative to baseboard heat; however, in some neighborhoods it would not make a difference. If an adjustment is made for a heat pump, it is because it is considered a better-quality system and because it includes cooling, not because of energy efficiency.

- ♦ “I’ll make an adjustment for a heat pump. If I compare a wall heater to someone who had a heat pump system, I would consider the heat system to be a better system for heating and cooling.”

As they move through the house, appraisers look for potential structural or safety red flags. Although they are not roof, pest or structural inspectors, they are trained to identify issues of concern. If they see a problem, they call for an inspection.

Typically, details relating to energy efficiency, such as the amount of insulation in the attic, are not included in an appraisal report. For example, an appraiser will only make note of attic insulation if it does not meet their expectations given the era of the home. Generally, comparables are assumed to have similar insulation so it will not influence the assessment of value.

- ♦ “If you’re doing a whole bunch [of appraisals], if you’re appraising a split-entry home and it was built in 1975, you know what the expectation is for insulation. You walk up there and it meets your expectation for insulation—it has rolled-out fiberglass insulation. You’re pretty sure your comps are all going to be that way, too. You’re not going to say anything about it. If you walk into a turn-of-the-century 1900s home and it has no insulation, and you’re in Wallingford where most houses do have insulation now—they’ve been updated—you’re going to talk about it.”

One of the most important steps in an appraisal process is selecting comparables, or “comps.” This gets at the core of an appraisal: determining the value of the subject home by comparing it with similar properties. The goal is to find comps similar to the subject in size, style, age, quality of construction and located in same neighborhood. Comps are usually drawn from sales that have closed within the last 12 months, but they can also include active listings and pending sales.

- ♦ “You’re taking all your comparables and you’re listing the price for each one. As you go through each one, you’re comparing certain items with the subject. Then you adjust them to be equal to the subject. So if your subject is in very good shape and this one is not in very good shape, you’d make a positive adjustment. If your subject had electric baseboard heat and this had forced-air gas, you might make a negative adjustment.”

The more unique the house, the more difficult it can be to select good comps and to make appropriate adjustments. Finding good comps is also more difficult in a down real estate market because fewer sales have gone through; this problem is magnified in smaller communities. Because of this, an appraiser may have to go beyond normally accepted standards to find suitable comps. In this situation, the skill and knowledge of the appraiser can have a big impact on the appraised value.

- ♦ “You have to have common sense and enough research skills to make sure that you’re getting the right comparables. That can vary widely.”

Typically, the acceptable variance between appraisals is 3% to 5%. For example, if research participants appraised the same house, they anticipated that their appraisals would all come

within 3% to 5% of each other. However, for a unique, high-end home, the variance would likely be higher, as much as 10%.

- ♦ “The more complicated the appraisal, the bigger that variation will get.”

In addition to calculating the value of a home based on sales comparisons, appraisers will often also calculate a value based on the cost approach. The cost approach is a valuation of the cost to reconstruct the house less depreciation, plus land value. The cost approach is more relevant to new construction than to older homes. Both valuations are typically included in the appraisal report; however, the sales comparison is the value on which lenders rely for lending decisions. In the past, the cost approach and the sales approach produced fairly similar results. Currently, however, given the drop in home values, the cost approach is often higher than the sales approach.

Homeowners are often surprised to learn that just because something adds cost to a house it does not necessarily add value. For example, appraisers in both Seattle and Spokane noted that swimming pools do not add as much value to a home—using the sales comparison approach—as they cost to build, and in some cases may actually detract from the value.

- ♦ “If you put in a swimming pool, it doesn’t matter how much you pay for that swimming pool, you will never get your money out of it. It just doesn’t happen in our market.”

The primary component of the appraisal report is the Uniform Residential Appraisal Report form, which was developed by Fannie Mae. It was first implemented in 1993, and has since been updated only once, in 2005. If an appraisal is being done for a lender, the appraiser uses this form. Each AMC or lender may also have additional guidelines and addenda they require as part of the report.

- ♦ “The basic form for a residential house is a form with all the boxes and things that need to be filled out. It’s set by Fannie Mae. That’s the underlying format.”

When asked to define what drives value in the residential market, participants described it as the price upon which a willing and knowledgeable buyer and a willing and knowledgeable seller agree. However, they stressed that the specific features or components of value vary by market.

- ♦ “[What drives the value is] what people are willing to sell and buy for. A willing and knowledgeable purchaser and a willing and knowledgeable seller coming together and agreeing upon a price. That’s the market.”
- ♦ “I’d say the components of value vary according to the market you’re in. Graham is over here in the high-rent district in Bellevue and Mercer Island. What drives value there is going to be very different than urban Seattle and Madison Valley or the central area.”

Research participants repeatedly stressed that appraisers do not set the market value; they merely measure and report the market value.

- ♦ “What we are trying to measure is what the typical purchaser will pay.”

- ♦ “Our job is very simple, believe it or not. We report value. We don’t make value.”

Realtors can no longer request or recommend a particular appraiser, so appraisers no longer market their services to real estate agents. However, appraisers often rely on real estate agents for information about comparable properties, since appraisers don’t see them for themselves. Information available on the MLS may be weak or incomplete, thus getting details from the listing real estate agent allows appraisers to do a more accurate sales comparison. Additionally, appraisers try to learn from realtors whether the seller paid any concessions on the price, which is something many realtors don’t like to reveal.

- ♦ “I’ve come to recognize realtors as an invaluable source of information.”
- ♦ “One important thing you always need to get from them is the financing terms, if [the seller] paid concessions, although now they're refusing to give that to us. ... [For example] the home sold for \$100,000. [The seller] paid \$5,000 back. What’s the sale price of the home? Ninety-five thousand. They want us to use \$100,000.”

V. Green Homes & Energy Efficiency

A. Green Homes

When research participants were asked what the term “green” meant to them, and if it had any relevance to appraisals, responses were wide-ranging. Some readily admitted that they knew little about green homes. Others were dubious of the term because they considered it a catchphrase with no clear definition. Still others considered it a fad. There were also a few who were fairly well-versed on green homes, including being aware of some of the green certification programs.

- ♦ “[Green building] is a trend and it's a warm fuzzy feeling of ‘I'm buying green-built.’ It's mainly in Seattle. ... It's becoming more of a fad.”
- ♦ “It’s how the house is built. It’s the materials they’re built from. It’s the sustainability of the products. ... The indoor air quality, the sustainability, the catching the rainwater. I think all of those things factor in.”

Generally, participants were aware that there are different levels of green, but they didn’t necessarily understand what accounts for the differences or what the full array of features and components of a green home might include. Most were aware of some green features, but only a few conveyed a comprehensive understanding of green homes.

Some of the most commonly-mentioned features or attributes participants would expect in a green home included sustainable materials, such as cork or bamboo, and recycled materials such as blue-jean insulation. A few participants mentioned “certain types of paints” but left unspecified what that meant. Several participants cited geothermal heating systems as an example of what they might find in a green home, while a few brought up passive heating. A few mentioned rainwater collection systems. Others thought in terms of non-conventional construction techniques, such as straw bale construction. Conversely, indoor air quality was typically not in the frame of reference.

- ♦ “Green has to do with using recycled materials.”
- ♦ “A lot of times when they say green-built, it’s the building technique.”
- ♦ “I’ve done some of these, and I’ve done some highly-rated ones where they went through the process. They used the Styrofoam walls. The sheeting outside is the rain roof. They had a 1,200-gallon cistern to collect rainwater. It’s the process the structure is built with. It’s the materials it’s built with. It’s the systems that run it. It’s some sort of accumulation of these processes, systems and amenities that build up to higher ratings.”

Those with experience appraising green homes indicated that they don’t approach them any differently than any other home. That is, they don’t go in looking for any specific green attributes. In fact, an appraiser may not know going into an inspection that the house is green. Often they will learn that information from the builder or homeowner during the inspection.

- ♦ “[I don’t approach it differently] because you wouldn't necessarily always know going in. You'd find out when the owner brags about how everything is green. Everybody thinks they've put something in and it's worth so much money.”

To assess the value of a green home, participants indicated that it would be important to find other green homes for comparison. Some clarified that they would pull both green and conventional comps in order to accurately determine the value. If they couldn't find other green homes to use as comps, some noted they would draw the conclusion that it was an over-improvement and not make an adjustment for the green attributes.

- ♦ “You don't know [if it will be of higher value] until you pull your comparables. You'll probably have comparables that are green and not green. You pull everything out. That's going to tell you right there.”
- ♦ “If I could not find another green home, I would say ‘Looks like an over-improvement to me.’”

When asked what the impact of solar panels would be, a few thought they might add value, at least in the right neighborhood; yet the cost of the panels would likely be greater than the added value. More commonly, however, research participants thought that solar panels would not add value, and in fact may be a negative because they are “ugly.”

- ♦ “No [it won't add value]. They're often hideous. It's got to look good. It tests efficient, but it's got to look good.”
- ♦ “Solar is more expensive than the value it adds.”

A few participants indicated that they would be inclined to give a green home a price premium, but with caveats. They would do so only if the home were certified as green or if it were located in certain Seattle neighborhoods. There were also a few who would assess a higher value if it could be demonstrated that green components, such as a geothermal heating system, would reduce energy costs. However, the adjustment would not necessarily cover the higher cost of the system.

- ♦ “It depends on where it's at. In some neighborhoods I think that people are more apt to want a green home. In other neighborhoods they couldn't care less.”
- ♦ “If you can demonstrate that your heating costs or your energy costs are far less, I think buyers will factor that in. [And that would] certainly [impact the appraisal]. If you can demonstrate for instance a geothermal heating system, where they're pulling heat out of the ground, if you can demonstrate that the heating costs are far lower for something like that—now it's a far more expensive system than your typical heat cost—but it would have a positive impact on value.”

A few Seattle participants had heard or read information that claimed that certified built-green homes in the Seattle area command a price premium. One heard that the premium was in the 3% to 8% range; another that it was 10% to 12%; and a third heard it was as high as 20% in some parts of Seattle, though most were town homes. Conversely, one of these same sources noted that green certified homes were not commanding a premium in Pierce or Snohomish County, while another said green homes were actually selling for less in these counties. None of the participants who related these statistics had personal experience that could support these figures.

Among those who had experience evaluating green homes, a few had found evidence of a green premium in some parts of Seattle. Having evaluated two certified Built Green homes, one participant found that the market reaction was a 10% premium relative to similar, non-green

homes. Yet, that was 10% short of the added cost to build the homes. A few others—both in Seattle and Spokane—had found the opposite. Their experience was that the market did not support a price premium for green homes. This was the predominate view among research participants, though most did not have direct experience appraising green homes.

- ♦ “What I found on the first two homes that I did, which were built green, they were four-star level with the Built Green Program. They cost about 20% more to build. The market reaction was about 10% higher than similar size and quality homes that weren’t certified Built Green.”
- ♦ “I just did an appraisal of a home that had geothermal heating in Bryant. ... It was a LEED home. So you look at other LEED homes. The thing we found out is that people aren’t willing to pay a premium for that upgrade.”
- ♦ “We have no market reaction for it here [in Spokane]. We just don’t. It’s not appreciable.”

Time and again, research participants stressed that they don’t set the market value for homes—green or otherwise—they simply report it.

- ♦ “You can put it in the cost approach and say it cost more to build it. The builders are unhappy because we’re not recognizing this additional cost. But we report market reaction, not cost.”
- ♦ “We don’t set the market, we just follow it. Our job is we come in and see what happened. Then we tell the story about what we saw.”

According to research participants, appraisers don’t usually know if a home is green because that information is rarely included on MLS listings. This may change in the near future. One Spokane appraiser was familiar with action being taken by The Association of Realtors to create a new property data form. The new form will include designations for certifications relating to green and energy efficiency.

- ♦ “On the new property data form that they’re putting out they’re listing all these different certifications. There are about six or seven of them that go in. How much do your appliances use? How much recycled materials? What’s the air gap? You have these tests done. This is going to come in the next two years because it’s going on the new property data form. I think it’s coming out in March or April. The Association of Realtors [created it]. They have a committee, I was on it.”

B. Energy Efficiency

While appraisers don’t tend to look for green attributes during an inspection, they may take note of energy-efficient features. When asked what, in particular, they look for in terms of energy efficiency, windows were the most commonly-mentioned feature. For example, if an older home had upgraded windows and the comparables did not, all other things being equal, the windows would add value. However, if all of the comps have similar-quality windows, no adjustment would be necessary.

- ♦ “If you’re looking at an 80-year old house in Spokane, one of the most common things to see is upgraded windows. It makes a huge difference energy-efficiency-wise. If you were doing an old two-story house and your subject had replaced it with the low-e vinyl high-efficiency

windows and [on] the comparables, say a couple did, a couple did not, you might make an adjustment for that because it's something that's common enough in our marketplace now to be able to see that buyers care about that.”

The appraisal report includes a line for energy-efficient items, yet that may not be where energy efficiency gets reflected. Some participants explained that energy-efficient windows might be just one of a number of improvements or features of the home. An appraiser may decide to reflect this collection of features in the home’s effective age or its overall quality. Participants pointed out that appraising is not cut and dried; it’s an art form.

- ♦ “If you’ve got a 1970s home and you're looking at other 1970s homes [as comps] and you're in Kirkland, there's a good chance that all you can find, every home is going to have aluminum thermal-paned windows that haven't been updated yet. Now, if you find a home that has all vinyl updated windows, you might make an adjustment to that home for having those updates versus the other one, but that's because you've been in that market enough to know that people actually will pay for that. But you'll also typically find that that house with the vinyl windows also has a slab granite kitchen, updated bathrooms and so it's never part of one individual thing. Usually people go whole hog.”
- ♦ “You walk through and it's kind of like a gestalt with all of the components affecting its quality and its effective age. That's how we deal with it. It's an art form and it's a judgment. ... If you start adding enough of these things together, then you say ‘Well, maybe this is a little bit higher-quality house.’”

As mentioned previously, heating systems are typically not evaluated in terms of energy efficiency. Generally if there is an adjustment related to the heating system, it is for the overall quality of the system.

- ♦ “I just did one the other day. I had a little shade rancher. Someone had electric baseboard heat. My subject had a forced-air heating system. I adjusted \$2,000 for that forced-air heating system.”

Overall, energy efficiency does not get a lot of attention from appraisers. Research participants cited several reasons for this. For one, they don’t see evidence that energy costs are among home buyers’ top priorities. They asserted that energy costs are simply too low on the list of purchasing criteria to impact assessed value. For example, in older homes, a cosmetic upgrade is more important to buyers than an upgrade in energy efficiency.

- ♦ “My job is... measuring other peoples’ choices. I do not see people making much of their decision based upon expected energy and utility costs.”
- ♦ “The home that has the cosmetic update will win hands-down and sell for more [than one with an energy-efficiency upgrade].”

Another reason for the low attention to energy efficiency is that appraisers typically do not have information that tells them how energy-efficient a home is overall, or how efficient individual components are. Nor would they have this information for comparable properties. As one participant pointed out, “the whole process isn’t that exact.” Appraisers are evaluating on the

macro level, not the micro level. However, several noted that they would like to have such information, and wished that realtors would do a better job of including it in the data sheets. It would make the market more transparent.

- ♦ “You look at it as far as you can. You don't know what they're paying [for utilities]. You don't know how energy-efficient it is.”
- ♦ “We can't get that fine because we can't recognize the contributory value for any one component.”

One participant described what he said was a very unique situation in which he did have enough information to make an adjustment for energy efficiency. It was the one and only time that he had the data necessary to verify that, due to energy efficiency improvements, the utility costs of the subject property were substantially lower than they were for the comparables.

- ♦ “There was one example, I appraised a duplex. The owner had it insulated extra and had the ENERGY STAR efficient appliances. He was telling me what his tenants paid on average for their heating and electrical bills. It just so happens that the data source that I get rental information from also states the amount of the average utility bills for the tenants, and I had all the comparables. There was a noticeable difference. I think it was probably around \$100 or maybe \$150 a month. So when I actually confirmed on the comparables the difference on the utility costs, I was able to make that adjustment. ... But that was the only time that I really had all the data there. Otherwise we don't really know that data.”

In newer homes, attention to energy efficiency is usually considered unnecessary because the homes have been built to code. The general assumption is that there isn't much difference in the energy efficiency of these homes. They are all perceived to be relatively energy-efficient.

- ♦ “I think it was 1998 we had a whole new set of standards under the uniform building code. ... If you're looking at a new home today with all these new energy standards, you've got to realize that...a two-, or three- or four-year-old home is really pretty tight. It's pretty energy-efficient. Even if it is a crummy builder, normally these things shouldn't come into play.”
- ♦ “Basically it comes back to the same concept of if you're using comparables, apples to apples, it's not an issue.”

If something new comes into the market, such as a new heating and cooling system, participants said they would approach it like they do any appraisal problem: they would look for comparables and make a determination of whether it warrants an adjustment. They would also educate themselves by doing research on the topic. This could include online research, as well as talking with builders and other appraisers.

- ♦ “We're starting to run into more radiant boiler systems, in-floor heating systems. Like any appraisal problem we're going to look for a like sale and see if that, all things being equal—and that's what we're doing is making adjustments to make those equal—in the same house, did the buyer pay a premium for that one item?”
- ♦ “It's self-taught when you run into one of these projects. It sets off a firestorm of research.”

Appraisers also keep up on changes in the industry through continuing education classes. Appraisers are required to complete 28 hours of classes every two years. Additionally, there are a variety of journals and newsletters that appraisers use to keep abreast of developments in the market.

VI. ENERGY STAR Homes

After the discussion of energy efficiency in general, the focus moved to ENERGY STAR homes in particular. Research participants were generally familiar with the ENERGY STAR name as it relates to energy-efficient products. Awareness and understanding of ENERGY STAR homes, however, varied widely. A few were completely unfamiliar with ENERGY STAR homes; others had heard of them but didn't know much about them. There were also a number of participants who claimed that they were familiar with ENERGY STAR homes, but their comments suggested that their understanding was limited and sometimes erroneous. Finally, there were a few participants who had a fairly good understanding of ENERGY STAR homes, including some who had attended training classes on them.

- ♦ “In terms of the overall house, no. In terms of buying a brand new HDTV or a refrigerator, yes.”
- ♦ “[ENERGY STAR doesn't mean anything to me.] Not from an appraisal standpoint.”

Among those who were most familiar with ENERGY STAR homes, a few indicated that they had learned to recognize ENERGY STAR homes by some of their energy efficiency features. From a training she had attended, one appraiser had learned to differentiate an ENERGY STAR home by its insulation, ductwork and sealed seams. Another cited thermal windows, water heaters and the heating systems as tell-tale signs.

- ♦ “I know quite a bit about ENERGY STAR [homes] and what to look for [but not green]. ... If you've got an unfinished basement in a new home, anybody can walk into it and know if it's energy-efficient. Everything is sealed, all of the seams, the ductwork, the insulation, everything. To me it just looks totally tight and perfect.”
- ♦ “It's pretty common. I do more in Coeur d'Alene. [You'll know it is an ENERGY STAR home because] they'll tell you. But then you start looking at the hot water tanks and the heating systems and the thermal windows. There are just certain things you can notice. ... If you were walking in and you've never done one, I don't think that you would know it [was ENERGY STAR].”

Among the misperceptions about ENERGY STAR homes is a lack of understanding about the distinction between ENERGY STAR certification and certification that a home is green. A number of participants seemed to think that ENERGY STAR certification is green certification. Participants often referred to the two types of certification interchangeably, not realizing that an ENERGY STAR home is not necessarily a green home.

- ♦ “[When I appraise a green home] what I'm really looking for is if it's ENERGY STAR-rated. That means that they passed this huge criteria so they are going to be able to have this certification. The builder went through a lot of rigmarole to be able to use the materials so that he could actually buy that certification. When I'm appraising under energy-efficient items, I'm looking for if it's a certified green-built home or not.”
- ♦ “[When appraising a green home] in a perfect world you'll find other homes that are ENERGY STAR to compare it to.”

This same misunderstanding also seemed to be at play when participants discussed the cost of building ENERGY STAR homes. A common perception was that it would add many thousands of dollars to the cost of building a home, yet save only a few dollars a year on energy costs.

- ♦ “The home buyers aren’t going to spend an extra \$10,000 or \$20,000 on a house to save \$100 a year. It’s that simple.”
- ♦ “It’s not cost-effective for builders to spend thousands of dollars to save a few dollars.”

The fact that there are so many different programs and standards within the housing market contributes to the confusion and misunderstandings.

- ♦ “One of the problems is you’ve got ENERGY STAR, an organization promoting ENERGY STAR. You’ve got the Seattle/King County Master Home Builders and Snohomish County and Thurston County Master Home Builders that have the green or Built Green standards. Then you’ve got LEED, which is a national program. Green-built is basically West Coast regional. LEED is a national program. They have a residential component, but their biggest thing is commercial properties, so the platinum and gold LEED office buildings and so forth.”

Many participants considered ENERGY STAR certification to be immaterial to the appraisal process because they felt that consumers do not value energy efficiency when buying a home, therefore it does not affect the appraised value. Some participants also dismissed the value of ENERGY STAR certification because they didn’t understand all that it encompasses. For example, one associated ENERGY STAR with appliances, and pointed out that appliances are usually considered personal property, thus not included in an appraisal.

- ♦ “My job is not what I want. It’s measuring whether people are being sensitive to how energy-efficient the home is. Or how utility-efficient the home is. People are not!”
- ♦ “Most of the things that you see with the energy-efficient sticker on it is personal property...but we don’t appraise personal property.”

Research participants would not approach the appraisal of an ENERGY STAR home any differently than they would any other home. The difference would be in the comparables—finding other ENERGY STAR homes for comparison purposes.

Not surprisingly, given the range of perceptions and knowledge of ENERGY STAR homes, there were differences of opinion regarding whether or not ENERGY STAR certification would add value. While many participants asserted that it would not add value because there is no market acceptance for it yet, others were open to the possibility that it might.

- ♦ “You’ve got to have enough acceptance from the market to show a pattern over time. Can it happen? Absolutely. Has it happened in the Spokane market? I don’t think so.”
- ♦ “I’m not going to make an adjustment for energy efficiency until there is a measureable difference in it.”
- ♦ “I’m going to approach it with an open mind and research it. Find out what does that mean? Try to find some other sales that maybe would give me an indication if that is important or not.”

On one hand, some participants indicated that assigning added value for ENERGY STAR certification wouldn't be an issue if all the comps were also ENERGY STAR homes. This was the point of view of one participant with experience appraising ENERGY STAR homes in Spokane. He asserted that there would no problem finding appropriate comps that were also ENERGY STAR; therefore there would be no need to make an adjustment.

- ♦ “It’s not even a problem because usually all your comps are going to be the same. There’s no adjustment.”

Others had the point of view that it would depend on the market. In some neighborhoods it might add value; in other areas it might not. This was the perspective of another participant with experience appraising an ENERGY STAR home. She described a situation in which she had made a \$2,000 adjustment. In that case, some of the comps were ENERGY STAR and some were not, so she had the data to assign higher value to the subject home. Nonetheless, she anticipated other scenarios in which there would be no comps available to justify a difference.

- ♦ “[The builder] said it was energy-certified [ENERGY STAR]. I had some comps that were also, and then I had a few that weren't. So that's where I used that [energy-efficient] line [on the appraisal form]. ... I made a minimal adjustment of \$2,000 because the houses weren't worth that much anyway. But I thought it was worth something. [But] if the example subject was the only one that had it then...you just have to make a note. ‘My subject has this. I couldn't find any other comparables that had it. So I have nothing to base anything on to make an adjustment.’ Sometimes you can't.”

It was also pointed out that other factors might override any value that ENERGY STAR might add to a home. Another participant with experience evaluating ENERGY STAR homes described a situation in which an ENERGY STAR home sold for the same price as a non-ENERGY STAR home because the other home had a better layout and a better location on the street.

- ♦ “I did an ENERGY STAR house that sold for the same price as an identical home that wasn't ENERGY STAR. ... The house that didn't have ENERGY STAR had a better layout and a better location on the street. So it sold the same as this other one, basically because no one liked the layout of this house, but it had ENERGY STAR. So there are all these other factors that go into it.”

A few participants noted that they would consider an ENERGY STAR home to be an upgrade, and as such they would give it a higher quality rating, but they would not adjust for it under energy-efficient items.

- ♦ “To me it’s part of an upgrade. It would be part of my consideration of the quality of materials. Now it’s going into the quality-of-construction grid instead of energy-efficient items.”

A few long-time appraisers indicated that they would be very cautious about assigning a higher value for the touted benefits of ENERGY STAR homes because they have seen many so-called

improvements come into the market, only to fall flat. They cited Super Good Cents Homes and LP siding as two examples.

- ♦ “Every time in Spokane that anything has ever come out, like when it was the Super Good Cents, the geothermal, the heat pump, every one of these, earth-berms, you name it, everything went flat and everybody shied away from it after a while because it wasn’t what it was cracked up to be.”
- ♦ “They came out with smart homes not too long ago. That was supposed to be the greatest thing. We were supposed to make these big adjustments for smart homes. Nobody bought them!”

VII. Opportunities to Work with Appraisers

The last few minutes of each focus group were devoted to determining if there is an opportunity for NEEA to work with appraisers to differentiate ENERGY STAR homes. One approach would be to offer training classes on ENERGY STAR homes. Many of the research participants indicated that they would be open to attending training sessions to educate them on energy efficiency and ENERGY STAR homes. They thought it would be useful to learn more so they could recognize energy efficiency features in the field and make informed decisions.

- ♦ “The more data [I have], the more knowledgeable I am about something, the more I can make that decision of whether it’s important to this market or not.”

Several participants cautioned that while they were interested in learning more about energy efficiency and ENERGY STAR homes, doing so would not cause them to change the way they appraise ENERGY STAR homes. That would be up to the market.

- ♦ “I would be interested to find out more about it. But I don’t see that there’s anything that we could do to benefit [NEEA].”
- ♦ “I wouldn’t want NEEA to think that we are somehow determining the value. We’re only digesting the data.”

According to participants, a key to making the trainings a success is to offer them as continuing education hours. If the classes are certified, they would attract more appraisers. Certification would require working with the state for approval. Another suggestion was to collaborate with the Appraisal Institute, which was described as the education arm of the industry.

- ♦ “If they were continuing-ed certified, then appraisers would probably be very interested in taking them.”
- ♦ “[NEEA] should contact the biggest appraisal organization in the world. They have their own green courses. [They should] get together and collaborate. The Appraisal Institute.”

Suggestions for what they would like training classes to cover included a cost-benefit analysis of ENERGY STAR homes; photos that would help appraisers know what to look for; and clear and concise descriptions and definitions, not detailed technical information. Additionally, appraisers were interested in information specific to their own markets.

- ♦ “Provide clear and concise descriptions of what these things are. I don’t need 50 pages of technical information. I can’t give that to an underwriter. I need a paragraph.”
- ♦ “[At the] seminar that I went to they showed slides, pictures of what ENERGY STAR would look like. What to look for. That was the most helpful.”

A few participants pointed out that a bill will be submitted to the Washington legislature that would require appraisers to complete seven hours of continuing education every two years on green homes. If this legislation passes, it may work in NEEA’s favor, creating more demand for classes on energy efficiency.

Not everyone was enthusiastic about ENERGY STAR training classes. Some participants felt that taking a training class at this point was premature. They indicated that they would not be interested in such training classes until they see evidence that ENERGY STAR is important to the market.

- ♦ “If we start seeing on an MLS listing ‘[Meets ENERGY STAR] standards,’ then I’ll say I’m going to go [to training classes].”

To make energy efficiency more of a priority in the market, research participants stressed the importance of having energy efficiency and certification information included on the property data forms. They urged NEEA to work with boards of realtors across the region to get this information included for every home listed. Having the information consistently listed would help create awareness and provide more transparency in the market.

- ♦ “If you have a standard for energy efficiency, to drive that through the MLS so it’s a checkbox, because then the buyers might start saying ‘Gee, I only want to look at homes that are energy-efficient.’ Right now, the realtors have no way of showing that.”
- ♦ “You’ve got to sell the home buyers. The first thing is having it on the forms. That’s recognition.”

Because appraisers follow the market, rather than set it, numerous participants recommended that NEEA’s efforts to promote ENERGY STAR homes would be best served by first educating home buyers and realtors about the benefits of energy efficiency. That would help to create more demand for energy-efficient homes.

- ♦ “The important thing is...we are not the dog. We are the tail. They need to work with the buyers.”
- ♦ “I really think that they are going to have their greatest success in selling these homes at a premium by educating realtors.”

Research participants indicated that it would be both appropriate and beneficial to include appraisers and realtors together in the same training classes. It would facilitate industry players developing a common vocabulary for talking about energy efficiency, which participants noted is currently missing.

- ♦ “It’s competing organizations and a variety of interpretations of green and the different words—the buzzwords that builders and realtors use aren’t used across the board in a uniform manner.”
- ♦ “[Having realtors and appraisers would help] towards unifying the vocabulary. If we’re all sitting in the same room taking the same class, that would be a major advantage.”

VIII. Conclusions

The research indicates that there is an opportunity for NEEA to work with appraisers to better differentiate ENERGY STAR homes. Currently, energy efficiency garners little attention from appraisers during the appraisal process. Learning to recognize energy-efficient features and components may help to change this.

An opportunity exists to educate appraisers about ENERGY STAR homes. Presently, appraisers typically do not understand all that an ENERGY STAR home entails to make it more efficient. There is a perception that all newer homes are relatively equal in terms of energy efficiency. Learning about the products and building techniques that make ENERGY STAR homes more efficient will help overcome this misunderstanding and help appraisers be more discerning about ENERGY STAR homes.

It would also be useful to educate appraisers about the differences between ENERGY STAR certification and green certification. Given that there are multiple standards and programs for building green homes, it is no wonder that appraisers are confused. It is important that they understand that ENERGY STAR certification may be a component of a green home, and that it can also be a stand-alone certification.

Educating appraisers about the costs associated with building a home to ENERGY STAR specifications, as well as the expected benefits in energy savings, will also be important. Because of the misunderstanding that ENERGY STAR homes are green homes, there is a perception that they are significantly more expensive to build, and that they do not return the added costs in energy savings.

There is an opportunity to work with appraisers by offering training classes that apply toward their continuing education requirements. If the state of Washington passes legislation requiring appraisers to complete seven hours of continuing education on green homes, this would increase the interest in ENERGY STAR training. The more knowledgeable appraisers are about ENERGY STAR certification, the better able they would be to determine whether the market places a premium on energy-efficient homes.

Given that the acceptable variance for appraisals is 3% to 5%, there is room within the current appraisal process for an appraiser to make an adjustment for an ENERGY STAR home without raising a red flag.

In addition to focusing more efforts on educating appraisers, appraisers suggested that NEEA work with realtor boards to update property forms to include information on energy efficiency attributes and ENERGY STAR certification. Having energy efficiency information consistently included would help on both ends of the market. That is, it would help raise awareness among buyers regarding energy efficiency differences between homes; raising awareness is the first step toward creating more demand for energy-efficient homes. It would also help make the market more transparent, allowing appraisers to include energy efficiency in their sales comparisons, which is difficult to do now.

Appendix A

Recruitment Screener

Curtis Research Associates
Northwest Energy Efficiency Alliance Focus Groups
Recruitment Criteria - Seattle

Dates & Times:	Seattle - Monday, December 14 at 5:30 – 7:30 and 8:00 – 10:00 Spokane - Thursday, December 17 at 5:30 – 7:30 and 8:00 – 10:00
Groups:	Conduct 2 focus groups per city with appraisers of residential real estate
Recruit:	Recruit 12 per group for a minimum of 8 to 10 participate
Certified Appraiser:	Must be a <u>certified</u> residential appraiser or <u>certified</u> general appraiser. If they do both commercial and residential appraisals, at least 60% of their workload should be residential appraisals.
# Of Appraisals:	Must have appraised a minimum of 10 homes in the past 12 months (more is better)
Experience:	Must have been a real estate appraiser for a minimum of 3 years, but 5 years is preferable (this includes 2 years of apprenticeship).
Company:	Do not recruit more than 1 person from the same firm to attend the same group. If sample limitations make it necessary, it is okay to recruit two people from same firm to attend different groups
Articulation:	Use open-ended question to screen for articulation. Be sure respondents are articulate and comfortable sharing their thoughts in a small group setting
Gender:	A mix of men and women
Security Screen:	Ask about past employment in these fields, but we will not terminate based on this: <ul style="list-style-type: none">- An advertising agency or department- Market research department or company- A gas or electric company, or as a consultant for the gas or electric industry
Incentive:	\$125
Sample:	Please start with the sample of certified residential appraisers. If needed, we will supply a list of general contractors also.

Real Estate Appraisers Screening Questionnaire

Hello, my name is _____ and I'm with _____, a market research firm. We are conducting a short survey with real estate appraisers. May I ask you a few questions?

[If needed]...This is not a sales call. All questions are for research purposes only.

1. Do you currently work in the field of real estate appraisals?
 1. Yes
 2. No...**Terminate**

2. Do you appraise commercial properties, residential properties, or both?
 1. Commercial only...**Terminate**
 2. Residential only
 3. Both

3. Are you currently licensed and certified as an appraiser with the state of Washington? {If yes}
Are you a certified general appraiser or a certified residential appraiser?
 1. Not certified as either a general or residential appraiser...**Terminate**
 2. Certified general appraiser
 3. Certified residential appraiser

4. {Ask only of those who appraise commercial properties; skip if only appraise residential}
Approximately what percentage of the appraisals that you conduct are commercial properties and what percentage are residential properties? **{At least 60% must be residential; if not terminate}**

Commercial appraisals _____% Residential appraisals: _____%

5. How long have you been working as a real estate appraiser?
_____ **{Record years; terminate if less than 3 years, continue if 3+ years. Prefer 5+ years. This includes 2 years of apprenticeship.}**

6. In the past 12 months, approximately how many single family homes would you estimate you have appraised?
_____ **{Record number; terminate if 0-9, continue if 10+}**

7. Please describe the biggest challenges you encounter when you are conducting residential appraisals?

{Use this question to screen for articulation. Probe as needed to get a complete response. DO NOT recruit anyone who seems apathetic or is not articulate,}

I have just a few more questions for classification purposes.

8. What company do you work for? *{If they work independently, please specify that}*

9. Approximately how many appraisers work for your firm? _____

10. [Record gender by observation] *{Recruit a mix of men & women per group}*

1. Male
2. Female

11. Have you or any members of your household ever worked in any of the following fields:
{Track “yes” responses, but do not terminate}

- | | | |
|--|-----|----|
| 1. Advertising or public relations? | Yes | No |
| 2. A market research department or company? | Yes | No |
| 2. For a gas or electric company or as a consultant for a gas or electric company? | Yes | No |

If respondent meets all criteria and quotas, invite to participate.

Appendix B

Discussion Guide

**NEEA Home Appraisers
Seattle & Spokane
Discussion Guide**

I. Introduction (5 minutes)

A. Moderator introduction

Purpose & format of the group

Ground rules:

- ♦ One person speak at a time;
- ♦ Be candid; and
- ♦ Allow everyone an equal opportunity to participate in the discussion.

D. Participant introductions:

Please briefly introduce yourself to the group and tell us a little about yourself.

II. Background Information (10 minutes)

- ♦ How long have you been an appraiser?
- ♦ Are you an independent appraiser or do you work for an appraisal firm?
- ♦ Have you always worked in this (Seattle/Spokane) area? If not, where else have you worked as an appraiser?
- ♦ How do you market your business? (Probe to determine: how do you gain business? Who do you network with?)
- ♦ Briefly, tell me about the certification process. What do you have to do to become an appraiser?

III. Appraisal Process (30 minutes)

A. General information about process

- ♦ How does the appraisal process work? Walk me through an appraisal.
- ♦ Does the process vary depending on whether it is a new or newer home versus an older home? If so, how?
- ♦ Where do you get basic information on a home? Where do you get information about other homes to compare it to?
 - If you get information from the MLS, how do you use the MLS?
- ♦ Specifically, what features and attributes of a home go into the process to help you determine the value? (Listen for mention of energy efficiency.)
- ♦ How do you evaluate these features and attributes? What criteria or what level of detail do you use to evaluate...?
 - The roof
 - Appliances
 - Insulation
 - Type of heat
 - Probe other features as mentioned

- ♦ What are some of the biggest misunderstandings or misperceptions about the appraisal process?
- ♦ Is your work evaluated by anyone—is anyone looking over your shoulder to see what you're doing or how you're doing it?

B. Who determines process

- ♦ How much of the process is standard or structured regardless of who the appraiser is and how much of it is your judgment about what you should take into consideration and how?
- ♦ Is there a worksheet you use? Is it a standard work sheet or does each appraiser or appraisal company create its own?
 - Is there a mechanism where you can make changes—is it flexible?
- ♦ Who decides what features and attributes are included in an appraisal? Is there a governing body?
 - Are there certain things that are mandated? If so, what?
 - How often does the list of features/attributes get updated? By whom?
 - Is there a process for updating the list of features? If so, what is it?
- ♦ Does the value of a home go up as features are added?
- ♦ Do you have an index that you use to determine the market value of a home?
- ♦ Who or what really drives the market value of homes?

C. Recent changes in industry

- ♦ Have there been any changes in the appraisal process in the last few years? If so, what changes have been made?
- ♦ Are there any new restrictions compared to before?
- ♦ Is there greater scrutiny of the process or of appraisers now than there was before? If so, how?
- ♦ Where is this greater scrutiny coming from? Lenders? Others?
- ♦ Do you work with realtors? If so, how?
- ♦ Has your working relationship with realtors changed? If so, how?
- ♦ If you had a magic wand and could change anything about the appraisal industry or the process, what would you change and why?

IV. Energy Efficiency (40 minutes)

A. Green

- ♦ What does the term “green” mean to you?
- ♦ What does it mean for a home to be green?
- ♦ Does green have any relevance in the appraisal process? If so, in what way?
- ♦ Would a green home be appraised higher than a similar home that is not green? If yes, what specifically would contribute to that higher value? If no, why not?
- ♦ How much importance or weight do you give to green features in a home?

- ♦ How do you evaluate a home's green features? What do you look for?
 - Do you take indoor air quality into consideration?
 - Do you take building materials into consideration, such as cork or bamboo flooring?
 - Do you look for renewable energy features, such as solar panels? How would solar panels/photovoltaic systems impact the value of a home?
 - What other factors do you look for?
 - (Listen for mention of energy efficiency.)

B. Energy Efficiency

- ♦ What does "energy efficiency" mean to you?
- ♦ What does it mean for a home to be energy efficient?
- ♦ Does energy efficiency have relevance in the appraisal process? If so, in what way?
- ♦ Is a home's energy efficiency listed or reflected at all in the MLS? If so, does that have any impact on how you approach appraising the home? If yes, how?
- ♦ Would an energy efficient home be appraised higher than a similar home that is not as energy efficient?
If no, why not?
- ♦ Do you have the power/discretion to differentiate an energy efficient home from other homes?
- ♦ Do you feel like you have the knowledge and training to assess a home's energy efficiency or is that outside the typical appraising process?
- ♦ How do you evaluate the energy use/energy efficiency of homes you appraise?
- ♦ Specifically, what do you look at to determine how energy efficient a home is?
Probe each item listed below on each of the following questions:
Do you look at...? If so, how do you evaluate its energy efficiency? How does it affect the value of a home? (Note: listen for level of consistency or inconsistency in assessment of energy efficient components.)
 - Appliances
 - If not mentioned, do you evaluate whether or not appliances are Energy Star?
 - Heating & cooling systems
 - What is the effect of a heat pump vs. zonal baseboard heating?
 - What about heating/cooling equipment – if this equipment is more efficient, better quality with longer warranties, does that impact the value. If the equipment is new technology that you are unfamiliar with how might that impact the value?
 - Windows
 - Insulation
 - Roofing
 - Water heater

C. Energy Star

- ♦ Are you familiar with Energy Star? If so, what do you know about it?
- ♦ To qualify as Energy Star, products must meet efficiency standards. Are these standards currently taken into consideration during an appraisal?
- ♦ Do you have the power/discretion to differentiate an Energy Star home from other homes?
- ♦ If not, is there an opportunity for Energy Star to work within the current framework of appraisals?
- ♦ Would you be interested in learning more about energy efficiency and Energy Star specifications?

V. NEEA Opportunities (20 minutes)

Note: Still to be decided whether or not to mention NEEA. We will make a determination shortly before the first group in Seattle. .

- ♦ Are you familiar with the Northwest Energy Efficiency Alliance, also referred to as NEEA?

The Northwest Energy Efficiency Alliance is a private non-profit organization funded by Northwest utilities, the Energy Trust of Oregon and the Bonneville Power Administration. NEEA works in collaboration with its stakeholders and strategic market partners to accelerate the sustained market adoption of energy-efficient products, technologies and practices. NEEA's market transformation efforts address energy efficiency in homes, businesses and industry. Its mission is to: Mobilize the Northwest to become increasingly energy efficient for a sustainable future.

Within the residential market, NEEA works to promote the construction and sale of new homes built to the ENERGY STAR Homes Northwest specification.

- ♦ Is there an opportunity for NEEA to work with appraisers to differentiate Energy Star homes?
- ♦ How should NEEA go about working with appraisers? What would you suggest?
- ♦ Is there a governing body that NEEA should work with to try to make energy efficiency a more significant component of the appraisal process?
- ♦ What are the biggest hurdles that NEEA would face in trying to make energy efficiency and Energy Star a more significant component of appraisals?
- ♦ NEEA works with real estate agents to provide training on energy efficiency. Would energy efficiency training be of value to you?
- ♦ Should NEEA work with real estate agents and appraisers together or should it be kept independent?
- ♦ Would you be willing to talk with people from the NEEA program to strategize ways that it could work with appraisers? If so, will you please leave your business card so they know how to contact you?

VI. Wrap-up (5 minutes)

Before dismissing the group, the moderator will confer with research observers to determine if there are any additional questions that need to be addressed.

- ♦ Do you have any final thoughts or suggestions?