I appreciate the opportunity to provide an appraiser’s insights regarding where public policy should go regarding the construction of high-efficiency/renewable energy single-family dwellings.

There is no question that increasing the proportion of such homes is the right thing for the planet, as well as for homeowners. They both reduce the expense of heating and cooling and are more comfortable to live in. The downside is they are more expensive to build, which inevitably means they must be sold at a higher price for the builder to stay in business. That places them out of reach for some potential buyers who cannot qualify for the larger mortgages, despite being able to apply the savings on energy bills toward mortgage payments.

It also can result in the property not appraising high enough to support a mortgage at typical loan-to-value ratios, thereby causing the buyer to come up with a larger-than-normal down payment. Lenders, including the secondary market such as FannieMae and FreddieMac, demand appraisals that feature the sales comparison approach to estimating value. In that analytical method, appraisers obviously depend on historical data – prior sales of homes that would have been competitive with the property being appraised. This is an obvious weakness when that home employs newer technology than found in the homes that have sold. An upward adjustment to their sales price must be made to reflect the added value of the energy efficient features until enough of these higher-efficiency homes have sold so the appraiser can identify several competitive homes to base the analysis on. Justifying that adjustment is critical to the appraisal being accepted by the lender.

Capitalizing the energy savings – converting the annual expense reduction to a property value – is therefore essential in the absence of those similarly efficient sales. But that is often not enough, particularly when a home at the far end of the spectrum such as a “NetZero” is involved. My most recent appraisal of a NetZero home also required analyzing the relevant tax credits as
well. By adding the combined savings and credits to the sales prices of the other homes in the analysis, the indicated market value was consistent with the builder’s cost. The home ultimately sold near that estimated value and is now a data point in a future analysis. But without those tax credits, the home would have been unlikely to sell at a price that didn’t represent a loss to the builder.

Not surprisingly, performing these more complicated analyses requires an appraiser who has the necessary unique competency. At the present time, fewer than three percent of Maryland licensed appraisers have acquired the additional specialized education to do so, but the Maryland Association is actively growing that cadre. But if the number of such homes grows very rapidly, there could be a bottleneck in the performance of appraisals to support these mortgages.

The most effective steps Montgomery County could take as a matter of policy to encourage the growth of the energy-efficient home market would appear to be creating financial incentives such as property tax breaks – which follow the property and apply to subsequent buyers. They effectively lower the home’s price, bringing more buyers into the market for these properties. These incentives do not need to be offered in subsequent years indefinitely, for as more of these homes exist in the market, they will be available for future appraisals.

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William M. Riedel, AGA, is a past member of the Board of Trustees of The Appraisal Foundation in Washington D.C., the organization mandated by Congress to write and maintain the ethical, performance, and licensing standards for real estate appraisers nationwide, and is a principal in BLR Real Estate Appraisal, Inc., a full-service real estate appraisal and consulting firm.

He is a certified instructor in the Uniform Standards of Professional Appraisal Practice (USPAP) and in the appraisal of high-performance energy-efficient homes, teaching USPAP, Green Appraising, and other professional appraisal courses for the Maryland Association of Appraisers, and has taught seminars for personnel in the Office of the Maryland Attorney General, the Maryland Commission of Real Estate Appraisers and Home Inspectors, and the Maryland Association of Realtors. He received his BS in Business Administration from Central Michigan University and his MBA from Wharton Graduate School, University of Pennsylvania.