

NAHBGreen Toolbox: *Overcoming Appraisal Challenges*

OVERVIEW

As market interest in green homes grows, builders and buyers are reporting unexpected challenges securing accurate appraisals and financing for such projects. Lenders rely on appraisers for informed opinions about the market value of a property. If an appraiser isn't instructed to identify green features, or isn't qualified to do so, then it is likely those features will not adequately factor into the appraiser's assessment.

Appraised values based on the sale price of non-green but otherwise comparable properties often fail to recognize the long-term maintenance and operating cost benefits that green homes can offer that other homes may not.

More simply, the "comps" aren't really very comparable.

Green builders and home buyers who anticipate these challenges early on and effectively communicate with lenders and appraisers can help change the equation.

COMMUNICATE EARLY AND OFTEN

Let the chosen lender know about the green features of a home well before an appraisal is ordered, especially if you know that the house will likely cost more to build than the sales price of nearby homes that aren't green but are otherwise comparable. This gives the lender time to better understand the property and to find an appraiser who is qualified to understand its real market value. The Appraisal Institute®, and others offer training on valuing green properties and lenders may consider requiring the use of an appropriately qualified appraiser to value green properties.

DISCUSS DETAILS

Give the appraiser plenty of supporting documentation. Be available for onsite, face-to-face meetings with the appraiser to answer specific questions. You have a unique understanding of how green homes fit into the overall market:

- ◆ Market and absorption information
- ◆ Relevant sales information, including helpful comps
- ◆ Detailed specs including features that exceed code minimums and their cost-benefit rationale.
- ◆ Why certain features or materials were chosen
- ◆ Buyers' reactions to green features and materials



OVERCOMING UNFAIRLY LOW APPRAISALS

Green homes often incorporate energy-efficiency features like insulation, windows and HVAC systems that exceed the requirements of local codes. These and other features sometimes contribute to their being more expensive than otherwise comparable homes. If an appraisal of a green home is unjustifiably low, however, there are things you can do.

- ◆ Seek to have it corrected. Appraisers are ethically and legally bound to provide accurate information. If relevant information was not properly considered, an amended appraisal is a possibility. Ask if the appraiser is familiar with the *Residential Green and Energy Efficient Addendum*, available through the Appraisal Institute
- ◆ Notify the lender, who may consider another appraisal, though it may increase closing costs.
- ◆ Ask the lender to accept a “cost based” appraisal that takes the component costs into greater consideration when establishing its market value.
- ◆ Find out if your green home can be considered a “unique property.” Like historic properties, in some areas a home’s green status can qualify it for a wider acceptable comp radius, improving the chances of locating better matching comps.

Of course any adjustments to appraisal policies will have to be acceptable to the lender, its underwriters, and prevailing public policy.

ADDITIONAL STEPS

- ◆ Encourage education. NAHB and many other organizations provide formal green building training to the housing industry. Information can be found at www.nahb.org/CGPinfo
- ◆ Seek to have your projects certified as green by a credible, third-party program such as the National Green Building Certification program based on the ICC 700 National Green Building Standard and offered by the NAHB Research Center. Such certifications help buyers, appraisers and others to better find truly green homes. More information can be found at www.nahbgreen.org
- ◆ Speak to your local Board of Realtors® to encourage the inclusion of green data fields in the Multiple Listing Service (MLS). This can help appraisers accumulate data to better locate appropriate green comps. More information can be found at www.GreenTheMLS.org
- ◆ Find out if your local lenders are offering Energy Efficient Mortgages (EEMs), which take into account the money saved on utility bills when determining loan limits. If they are not available, encourage lenders to learn about EEMs so they can offer them. Training such as the Green Lending Specialist program is available for lenders interested in learning more.