



nerej

Understand the process of high-performance home valuation - by Craig Foley

October 05, 2018 - Owners Developers & Managers

Craig Foley,
Sustainable R.E. Consulting

In September 2015, a study of homes with green features in Washington, D.C. noted a premium for high-performance features in residential real estate transactions. More importantly the study described barriers in the D.C. marketplace that may be preventing homeowners and developers who have invested in energy efficiency during building or remodeling from receiving the value of their investments at the time of sale. The study's author, Sandra Adomatis, states, "While [these] comparisons and conclusions clearly demonstrate that homebuyers are willing to pay more for high-performance homes, the multiple listing service, or MLS, does not adequately collect and showcase data on green features. In addition, the market is in need of real estate professionals with knowledge of green building principles and practices in order to better market high-performance homes."

Adomatis is suggesting that if buyers had access to a more comprehensive set of data in the multiple listing service and if the real estate agents involved in the transaction understood the valuation process of high-performance home features, the sellers may have had the opportunity to realize additional equity at the time of sale. As the high-performance home marketplace continues to evolve, the process for valuation needs to evolve as well.

It is worth noting that builders dedicated to efficiency and real estate agents and appraisers that understand high-performance valuation are still a relatively rare breed of professionals. There are parallels in both industries; Passive house builders argue with HVAC installers about the importance of using a Manual-J to right size the systems. Agents and appraisers who are knowledgeable and competent when it comes to high-performance valuation need to be relentless in advocating for using the Appraisal Institute's Green Residential and Energy Efficient Addendum in the valuation process. It's not always easy for custom home clients seeking high-performance builders and architects to recognize the difference between traditional builders and ones who have green building knowledge and experience. It's also not always easy for high-performance builders or homeowners that are ready to sell a home with green features to recognize real estate agents that can

adequately represent them—and the assets they own—in the marketplace.

Earlier this year, as part of the E+ Solutions, LLC team, I had the opportunity to list and sell four energy-positive condominiums on Highland St. in the Fort Hill neighborhood of Boston. I was part of a team that included not only the developers, Jonathan and Ruth Kantar, their general contractor and all of the solar PV, smart home and mechanical, electrical and plumbing subs, but also a lender that would provide the construction loan for the project.

The result was a development that featured four units across two buildings: three market-rate units and one unit designated as affordable housing. The condos had HERS Index scores ranging from -14 to -22. The overall project was LEED Platinum certified and offered the buyers the opportunity to purchase a proportional ownership interest of the 31 kW solar PV system that was on both buildings' rooftops.

While the E+ Solutions project was being built, another code-built set of condos of similar size was under construction on nearby Marcella St. The two projects entered the market in the multiple listing service within one month of each other. The code-built condos were listed between \$370 and \$380 per s/f, while the E+ Solutions condos were listed between \$450 and \$460 per s/f. Would home buyers see the value of super insulated, energy efficient homes with solar PV and mechanical ventilation when new construction a short walk from the property was on the market for 20% less? If buyers saw the value of sustainability, would appraisers and lenders also?

These two new construction projects in the same geographic location offered an excellent opportunity to evaluate whether there is a price premium for high-performance homes, and, if so, what the premium looks like in a real-world setting. We can infer that the high-performance features of the Highland St. development represented a clear value difference. One of the E+ Solutions buildings featured two attached townhouse style units, which offered an excellent comparison to the attached townhouse style units of the Marcella St. project. All of these townhouse units were used in the paired sales analysis that I published on my website. You can find a link to this study by visiting nesea.org/bibliography.

The focus on high performance was the primary differentiator between the two projects. The E+ Solutions homes obtained LEED Platinum certification, the highest level of green home certification offered by the U.S. Green Building Council (USGBC). The Marcella St. units had HERS index scores of 55, while the two E+ Solutions homes used for the paired analysis, having been built to highest standards of applied building science, both offered an off-the-charts HERS Index score of -20.

The paired sales analysis revealed a 22.7% price premium for the Highland St. E+ homes. This can be largely credited to the process that we used to convey the value to buyers, their agents, appraisers and lenders.

Three documents that proved critical to this process of successfully conveying the value of high-performance were the Appraisal Institute's Green Residential and Energy Efficient Addendum;

a document published on the National Association of Realtors website that can be used to require a lender to assign a qualified appraiser to the project; and the PV Value Tool, which qualified appraisers use to determine the contributory value of a solar PV system using the income approach to valuation.

Craig Foley is the founder of Sustainable Real Estate Consulting Services, and chief of energy solutions for Leading Edge Real Estate, Cambridge, Mass.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540