

## **Green homes face a red light**

By Les Christie, staff writer

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NEW YORK (CNMoney.com) -- Lots of people, especially those trying to battle high utility bills, believe in energy-efficient homebuilding.

But there's something holding green technology back: It simply costs more to include it than it adds to resale value.

Appraisals for newly built green homes do not fully reflect the cost of green technology, and the lower appraisal values mean buyers often cannot get the full financing they need from banks.

That discourages developers from using green technology, in turn diminishing the market for more green products.

"We can't get lenders to appreciate the value, and if we can't get the values recognized, manufacturers can't justify moving these products forward," said Bill Nolan, a Florida home building consultant.

How that works is illustrated in the case of clients of Michael Chandler, a North Carolina-based green building adviser, who wanted to build a \$400,000 home incorporating many green features.

The house was designed to include passive solar heat, solar hot water, radiant floor, high-performance windows and insulation. But the bank's appraiser told them that the appraisal would come in for less than the cost to construct.

In that case, the buyers would need to come up with a bigger down payment.

"Our best guess is that it will appraise at \$380,000," said Chandler. At 90% financing, the bank would put up \$342,000, leaving the would-be buyers with a down payment of \$58,000, instead of the \$40,000 needed if the house was assessed at the full price.

"With 10% down, the clients would have to come up with (an extra) \$18,000," Chandler said. "They can't do that."

Appraisers feel their hands are tied.

"It doesn't do a lot of good to simply add value based on cost," said David Snook, a California-based appraiser who serves on the real property committee on education for the American Society of Appraisers. "The question is 'How much will the market pay on resale?'"

The appraiser's job is to accurately assess the value of the home. If a feature costs \$50,000 to install but only adds \$25,000 to the price when the home is resold, the

appraisal cannot reflect the full \$50,000 spent. (This same problem occurs with over improvement of an existing home.)

"Appraisers don't make the market, they reflect it," said Jim Amorin, spokesman for the Appraisal Institute. "Cost does not necessarily equal value. It depends on how the market reacts to the feature."

Also complicating appraisals these days are new rules to prevent loan originators from influencing appraisals. Builders cannot demand specific appraisers, ones more experienced at evaluating green building.

With Chandler's client, the house is in a rural zip code, one where few energy efficient homes have been constructed. The appraiser had little idea of how much building green adds to value.

"The appraiser has no experience with green building," he said.

Another problem is that appraisers also rely frequently on foreclosed homes for comparison, especially in places hit hard by defaults. These homes sell at big discounts to the regular market and even bigger discounts to green homes.

Because of the appraisal issues, developers often opt for installing only the lowest-cost green features.

"Some can be incorporated without much additional cost," said Curt Jones, a Connecticut-based civil engineer and green building consultant. As he describes the process for green certification, points are given for a wide variety of factors, some costing a lot, others costing nothing.

Angling the home a little differently, for example, to catch more rays and help heat the house passively, may not cost the builder a dime. But installing solar panels on the roof definitely will add a lot to the final price.

Ironically, turning green probably does add considerable value -- or will, once green gets more established in individual locales and buyers get more familiar with it.

In Seattle, a hotbed of green-building activity, new homes with green certification sell for 8.5% more per square foot than comparable non-green ones, according to a report from GreenWorks Realty. They also sell 22% quicker. But they have problems appraising for the sale amount.

"Sometime in the future, as more American homeowners green their homes, there will be more and more of a premium paid for green homes," said Ben Kaufman, GreenWork's founder. "I can imagine a miles-per-gallon type sticker on homes for sale and the marketplace will absolutely favor fuel-efficient homes."