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Capital Markets
PARTNERSHIP

Model Scope of Services for Green Home Valuation©

Peer review completed October 2012

This Model Scope of Services© provides:

- Background on green home valuation
- Purpose of scopes of services in appraisal contracts
- Purpose of this Model Scope of Services
- Documentation to be provided to the appraiser
- Liability risk reduction
- Incorporation of this Model Scope of Services into contracts for services
- Model Scope of Services language for contracts
- Appendix of green home valuation resources
- Copyright protection
- Use disclaimer of liability

Background. The Appraisal Institute, Capital Markets Partnership, and their Partners are conducting Green Home Valuation and Cheaper Cost of Capital and Insurance and Pilots. The Pilots are using green homes undergoing appraiser valuation with Appraisal Institute resources and publications, and extensive capital markets resources documenting added green home value including achieving *Green Value Scores* pursuant to the national consensus Green Home Underwriting Standards.

Also, the capital markets are moving forward with national green building and home financing through publicly traded securities creating an expected national financial stimulus due to the substantial secondary financing market size and need as documented by the capital markets. Citi, the States, and Capital Markets Partnership (CMP) announced the first green home bond / security at the CMP/ Appraisal Institute September 2012 Event at TIAA-CREF in NYC for green home retrofits

Discounted insurance for green buildings and homes is available by Fireman's Fund (FFIC) (5%), Liberty Mutual (10%), Allstate and other carriers. FFIC discounts are based on reduced green property loss ratios.

To ensure accurate and competent development of value to meet the market need, this Appraisal Institute / Capital Markets Partnership Model Scope of Services with suggested comprehensive resources in the Appendix, is being used for the Valuation and Cheaper Cost of Capital and Insurance Pilots at the recommendation of leading financial institutions that are Members of Appraisal Institute and Capital Markets Partnership. This Model Scope of Services is also made available to Appraisal Institute and Capital Markets Partnership Members for their use in green home valuation.

Purpose of Scopes of Services for Real Estate Appraisal Services. Scopes of work or services are part of the contract for services for appraisal of home value including those that are

green, i.e., environmentally and energy efficient. As part of the contract of services, appraisers and their clients are bound to achieve the duties and responsibilities of the scope.

Purpose of this Model Scope of Services. Many clients do not instruct the appraiser in the engagement of services and the scope of work, to value the attributes of properties that are green that are part of the valuation engagement. Accordingly, this Model Scope of Services has been prepared both to meet the need of this circumstance during contract and scope negotiation, as well as for the Valuation and Cheaper Cost of Capital and Insurance Pilots.

Methods of Developing Green Home Value. This Model Scope of Services does not suggest any new procedure for developing home value.

Documentation to Be Provided to the Appraiser

The client should supply a competent real estate appraiser with the following documents and information for analysis. This information should be supplied in advance of the bidding process if an electronic bidding system is utilized by the client of the appraiser.

1. **LEED or GreenPoint RATED Scorecard** (if appropriate). Alternatively, if certified by another organization, the checklist used by the certifier should be provided to the appraiser.

Comment: This document assists the appraiser in understanding the number of green home attributes that could positively affect value. The Scorecard is extremely useful in documenting the details on the subject home.

2. **Contact information for the responsible party for details of the green home**, (e.g., LEED consultant, architect(s), and engineer)

Comment: This will help inform the appraiser about the components and makeup of the home. An appraiser can never have too much information, especially when one or more parties of a transaction may have applicable information.

3. **Energy efficiency documentation**

Comment: Energy efficiency documentation can be critical in analyzing cost implications due to various green energy strategies or components. Carbon energy price volatility and increases from leading energy investment bankers based on actual globally validated data should be consulted (*Reducing Risk and Measuring Added Value For Property Energy Use*, CMP 2010).

For homes, the Underwriting Green Value Score uses the HERS Standard and requires a minimum HERS Score of 77 to achieve a Green Value Score. The minimum Green Value Score of 25 (25-100 Score) was set as part of the Green Value Score market test with JPMorgan to identify the minimum Score level where there is a high level of certainty that the green home attributes increase value.

4. **Plans and specifications**

Comment: Even in an existing home, these documents should be made available if possible. Specifications should include product descriptions from manufacturers. This helps inform the appraiser of what is actually found at the home.

5. Intended goals of construction or retrofit

Comment: Intended goals and projections of new construction or retrofit should be provided to the appraiser. Once the validity of actual energy use from utility bills is established, the appraiser can make assumptions about projected energy savings.

6. Property Tax rebates or discounts (including public sector, private sector or utility)

Comment: Where incentives are substantially monetary in nature or result in monetary, direct, and exclusive benefits to the project or owner, there is a good chance that value may be affected. The appraiser should be prepared to understand and address the contributory value of incentives.

7. Integrative Process (IP)

Comment: If conducted, the IP documentation should be provided to the appraiser by the home developer or owner. IP changes the inefficient linear home design and construction process by engaging the owner, architect, engineer and key subcontractors in workshops at the pre-design stage and several other key stages to identify home green design and construction parameters. IP has been documented as reducing construction and operating costs and risk. See CMP / ULI *Green Building Underwriting & IP Education Program Slides*, *Fireman's Fund IP Risk Reduction Statement*, & *National Consensus Green Home & Building Underwriting Standards*. For the higher levels of green home performance, construction costs become excessive without IP. IP is provided credit in LEED for Homes and other LEED properties and is set forth in the ANSI IP American National Standard: <http://webstore.ansi.org/RecordDetail.aspx?sku=MTS+2012%3a1f.UHvaAY7XIQc>

Liability Risk Reduction & Disclaimer. Liability risk for all parties part of green home design, construction, and financing where appraisers are engaged, can be reduced by ensuring that best resources are identified to perform competent green home appraisal. Accordingly, the Model Scope of Services Appendix below lists resources that can be used by appraisers in developing competent judgments on value.

As additional resources, The Appraisal Institute offers educational programs on green home value that can help with valuation. See <http://www.appraisalinstitute.org/education/green/default.aspx>

However, this Model Scope of Services for green home valuation is not a substitute for normal means appraisers use to reduce liability risk including their independent decisions on:

- Green home education and professional certifications
- Insurance
- Engagement of qualified and competent professionals to assist in developing value
- Engagement of attorneys
- Drafting of appraisal contracts for services and scopes of work

Accordingly, this Model Scope of Services does not address suggested contract of services or scope of work for services language dealing with potential appraiser or client liability.

Incorporation of This Model Scope of Services. With the recognition of the preceding liability risk disclaimer and use disclaimer of liability at the end of this Model Scope, appraisers should feel free to use this Model Scope of Services in whole or in part for incorporation into their

scopes of services for competent appraisal services, as well as all or any part of the following Model Scope language.

Model Scope of Services Language for Green Homes:

This Scope of Services that is part of the contract for appraisal services, specifically requests that the green attributes of the home specified in appraisal engagement of services, be independently and competently evaluated with a development of any added value from the home's green attributes.

Green homes achieving leadership national consensus standards of performance have sufficiently advanced in the market so that competent valuation of green attributes can be developed.

Further, there are sufficient green home valuation resources available to assist in a competent development of value. Comparable data on green home attributes are not available for all residential markets. However, as an appraisal resource in the development of value, the National consensus green home underwriting standard allows calculation of a Green Value Score on any green home in the US based on recognized green home attributes increasing value from peer-reviewed Wall Street due diligence released at the NYSE. The due diligence consists of over 30 reports, consensus standards, and investor surveys, reviewed at national public meetings at Federal Reserve Offices, and by Treasury and the Federal Reserve Board, and is accessible in the Memorandum to the Treasury and the Federal Reserve cited in the Appendix below.

The leading home builders build only green homes to leadership consensus green home standards (White Paper, National Green Building Financing Launch at TIAA-CREF, Sept. 28, 2012).

A competent development of green home value is the responsibility and independent professional judgment of the appraiser.

APPENDIX

GREEN HOME VALUATION RESOURCES

Appraisal Institute Residential Green and Energy Efficient Addendum (Form 820)

http://www.appraisalinstitute.org/education/green_energy_addendum.aspx

Appraisal Institute Green Building Education

<http://www.appraisalinstitute.org/education/green/default.aspx>

Appraising Energy Star Qualified Homes

http://www.energystar.gov/ia/partners/bldrs_lenders_raters/downloads/Appraising_ENERGY_STAR_Qualified_Homes_Slides.pdf

Capital Markets Briefing Paper green building business case released at the NYSE

<http://webstore.ansi.org/FindStandards.aspx?Action=displaydept&DeptID=3144#.UGjO2Y7XfQc>

Green Building Value Rating System

<http://webstore.ansi.org/FindStandards.aspx?Action=displaydept&DeptID=3144#.UGjO2Y7XfQc>

Integrative Process for Sustainable Properties & Communities American National Standard, the

basis of Fireman's Fund Risk Reduction Statement for green properties

<http://webstore.ansi.org/FindStandards.aspx?Action=displaydept&DeptID=3144#.UGiO2Y7XfQc>

Memorandum to Treasury and the Federal Reserve on Added Green Building Value with the link to over 30 reports, consensus standards, and investor surveys documenting added value including national reports with statistically valid data in Wall Street Due Diligence Released at the NYSE.

<http://webstore.ansi.org/FindStandards.aspx?Action=displaydept&DeptID=3144#.UGiO2Y7XfQc>

National Consensus Green Building Underwriting Standards for Residential Properties

<http://webstore.ansi.org/FindStandards.aspx?Action=displaydept&DeptID=3144#.UGiO2Y7XfQc>

Copyright Protection

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Use Disclaimer of Liability

This Model Scope of Services is provided for optional use for green home appraisals. By its use, any and all parties using in any way this Model Scope in full or part, hereby disclaim any and all liability and potential liability, including costs and attorneys fees, to the Appraisal Institute and Capital Markets Partnership.