



**Appraisal  
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May 30, 2014

Mr. David Bunton  
President  
The Appraisal Foundation  
1155 15th Street, NW, Suite 1111  
Washington, DC 20005

Dear Mr. Bunton:

On behalf of nearly 22,000 Appraisal Institute valuation professionals, we submit our comments regarding factual errors and other concerns regarding the Appraisal Practices Board's (APB) Second Exposure Draft: *Voluntary Guidance on Recognized Valuation Methods and Techniques: Valuation of Green Buildings: Background and Core Competency* ("Second Exposure Draft").

### **General**

We have serious concerns about the level of detail in the Second Exposure Draft. Green building and valuation is a relatively new and quickly changing subject area. The APB effort has the potential to stifle and discourage important and open exchanges among valuation professionals that are necessary to development and advancement of valuation theory and techniques in this subject area. We believe that the content of the Second Exposure Draft is more appropriate for education, textbooks and professional journals and does not belong in formal guidance, which should be reserved for timeless issues. We fear that this document will quickly become outdated and contribute to misinformation in the profession. Even if the information provided is correct at the time of publication (which is another issue, as addressed below), it could very quickly become incorrect and misleading. For example, the definitions on page 17 and the bullet points at the bottom of page 23 are ever-evolving. Appraisers should be pointed to the proper sources (such as [www.dsireusa.org](http://www.dsireusa.org), EPA, USGBC) for the most current information.

Additionally, we fear that the level of detail added to the document could provide additional burdens for appraisers. The third paragraph on page 21 could be interpreted as requiring education for appraisers on energy modeling. Similar issues are present in the third paragraph of page 22.

### **Use of Confidential Sources**

The Second Exposure Draft fails to disclose the names of the individuals who developed it. In the interests of transparency, the profession and the public trust, we strongly believe that the names and qualifications of the individuals who develop an exposure draft should be disclosed. Just as a signed certification is an integral part of an appraisal report, the disclosure of the names and qualifications of individuals who develop guidance for the profession should be an integral part of an exposure draft. Transparency is vital in the development of laws, regulations, policies, standards and guidance that will

impact the practice of a profession. A lack of transparency can lead to mistrust, questions and doubt about the motivations and rationale behind the content of the work, concern about competency and the appearance of opportunities for impropriety.

### **Efforts to Codify Appraisal Methods and Techniques**

As the Appraisal Institute has previously requested relative to the works of the APB, we urge that appropriate disclaimers be included that make clear – definitively – that the guidance the APB provides truly is *voluntary* in scope. We also urge the APB to disclose to the public that such guidance may be used to develop education materials for an organization - the Alliance for Valuation Education - over which The Appraisal Foundation has significant control, influence and financial interest, such as through a major funding commitment, a management contract, shared staffing, selection of numerous Board members and promotional efforts.

The APB still has not explained why it will not include disclaimers clarifying the use and applicability of its works. Given past actions by The Appraisal Foundation, inclusion of a clearly stated disclaimer on all APB works is a reasonable request, particularly since codification of appraisal methodology appears to be the intent of The Appraisal Foundation. Below are two specific examples.

In 2010, The Appraisal Foundation proposed to Congress an amendment during consideration of the Dodd-Frank Act to codify appraisal methods and techniques, apparently seeking to become the prudential authority in this area. In 2011, the Appraisal Standards Board proposed to reference specific works of the APB within the text of the Uniform Standards of Professional Appraisal Practice (USPAP). This would have had the practical effect of codification since USPAP is incorporated into state law and regulation throughout the country. This concern is further justified by recent public statements made by Appraisal Foundation spokespersons that either have encouraged states' regulators to adopt APB Valuation Advisories or implied that failure to adhere to APB Valuation Advisories may result in disciplinary action.

The Alliance for Valuation Education's plans to develop education around the APB Valuation Advisories presents conflicts of interest for The Appraisal Foundation and the APB, particularly with regard to TAF's Course Approval Program, but also in a broader sense as an entity that represents itself to the public, users of appraisal services, governmental agencies, Congress and the appraisal profession as independent. The Appraisal Foundation spearheaded the creation of the Alliance for Valuation Education, is providing hundreds of thousands of dollars to fund its operations, is formally managing its day-to-day operations and is driving its activities. As such, at a minimum, APB's actions should be beyond reproach and should set an example of the highest ethical and transparent conduct by clearly disclosing in its solicitation of comments and in advisories themselves that such advisories may serve as the basis for education developed by the Alliance for Valuation Education in which The Appraisal Foundation has financial and other interests.

Still, putting all of these concerns aside, all guidance documents – including the current Exposure Draft – at a minimum, should include a clear statement in the preamble along the following lines:

*This voluntary guidance for appraisers is not intended for enforcement purposes or for direct incorporation or incorporation by reference, into state laws or regulations affecting the standards by which opinions of value of real property are developed.*

Further, the term "Advisory" for this document should be changed to "guidance." As noted on the cover page of the Second Exposure Draft, the APB believes it is tasked with offering voluntary guidance. Conforming edits should be made through the document.

### **Competency**

Overall, the Second Exposure draft is misleading. Section II of the Second Exposure Draft states that a "Core Competency" is fundamental knowledge, ability, and/or expertise in a specific subject area or skill set. It is misleading to state or imply that learning the meaning and implications of a "selected set" of key terms and concepts constitutes meeting baseline competency requirements for valuing green buildings.

*Green/Energy Efficiency Education* refers the reader to Section Two of the document *Expectations for Appraisers/Core Competency*. The Appraisal Foundation should provide more specific guidelines for users of appraisal services on gauging appraiser competency. Generally speaking, our members inform us that this is where lenders and their agents are in need of guidance as they are *NOT* asking the questions needed to make informed decisions on green competency when hiring or retaining an appraiser. The second bullet point under *Green/Energy Efficient Education* (page 6) provides some good points, but the subsection *Expectations for appraisers/thresholds for competence* (pages 28-30) addresses judging competency based on the report. It is far too late to realize that an appraisal report was authored by someone without the appropriate competency.

All the items listed in the *Expectations for appraisers/thresholds for competence* section on pages 28-30 point back to quality educational courses in order to gain this competency. As stated earlier in this letter, we feel that an Advisory document is not the place for this information. Textbooks and education offerings are far more appropriate vehicles.

### **Exposure Draft Formatting**

The Appraisal Institute was disappointed to see that this exposure draft does not contain line numbers, as is the common practice for exposure drafts when comments are requested. This formatting decision has made the review and comment process very cumbersome for us, as we are sure for all other interested parties. If the APB is sincere in its request for input on these exposure drafts, we suggest that line numbers be reinstated to all exposure drafts that are released in the future.

### **Technical Errors**

Our September 19, 2013, response to the APB's First Exposure Draft<sup>1</sup> included a list of several technical errors. Unfortunately, many of these errors still appear in the Second Exposure Draft:

- Page 11: The term "green building" is never defined in this exposure draft, including a list of the six elements of green building. Although HR 2336 died, there are still many reputable sources that have essentially the same definition for this important term.

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<sup>1</sup> See *AI on the Appraisal Practices Board Exposure Draft on Valuation of Green Buildings: Background and Core Competency*, September 19, 2013: <http://www.appraisalinstitute.org/file.aspx?Document=AI-on-APB-Exposure-Draft-9-19-13.pdf>

Appraisal Institute Comments on the APB's "Second Exposure Draft: Voluntary Guidance on Recognized Valuation Methods and Techniques: *Valuation of Green Buildings: Background and Core Competency*"

- Page 12, fourth paragraph: Incorrect reference to energy-efficient equipment or water efficiency upgrades as "green upgrades." These are only two of the six elements of green building, and this incorrect reference throughout the document will contribute to "green wash."
- Page 14, fourth paragraph: Implies that ENERGY STAR and HERS are green or sustainable programs, but are in fact energy efficient programs.
- Page 15, first full paragraph: Should indicate LEED as the most widely used "commercial" rating system.
- Page 15, second full paragraph: This should address the fact that a "registered" status means the property has been registered to become certified but has not completed the project/rating. (Some wrongly assume "registered" is a rating.)
- Page 16, first paragraph: ENERGY STAR® also focuses on Indoor Air Quality through its program – Indoor Air Quality Plus Package Label – [http://www.energystar.gov/ia/partners/bldrs\\_lenders\\_raters/downloads/IAPConsm508.pdf?ee97-5343](http://www.energystar.gov/ia/partners/bldrs_lenders_raters/downloads/IAPConsm508.pdf?ee97-5343) (The comment on these lines is not accurate.)
- Page 22, second paragraph: Implies the HERS ratings provides the adjustment. The HERS Report has a present value calculation of the energy saved. Some are purporting this is the number to use for adjustment. That may or may not be true. The appraiser must first understand the Present Value calculation and then compare the energy rating to the comparables that may also have energy efficient features. The APB is on a slippery slope when it makes these simple statements to appraisers and users of appraisal services that may have limited knowledge of the topic.

Additionally, this paragraph seems to imply that the energy audit will give the appraiser a comparison to comparables. This is simply not true. The energy audit may identify energy upgrades and features but it does not address the comparables the appraiser may have selected.

- Page 22, third paragraph: The term HERS Score is used here in error. It should say HERS Index. The HERS Index scale indicates the lower number as more energy efficient. That was changed in 2006 when ES used a HERS Score that indicated the higher number was more efficient.
- Page 31, fifth bullet point: Incorrect identification of the Appraisal Institute AI Reports® Residential Green and Energy Efficient Addendum (Form 820.04) <http://www.appraisalinstitute.org/professional-practice/professional-practice-documents/new-residential-green-energy-efficient-addendum/>
- The Addendum: Selected Resources omits two very important texts on this topic:
  - Adomatis, Sandra K. [\*Residential Green Valuation Tools\*](#). Chicago: Appraisal Institute, 2014.
  - Simmons, Alan F. [\*An Introduction to Green Homes\*](#). Chicago: Appraisal Institute, 2010.

### **Typographical Errors**

Our response to the First Exposure draft also highlighted a number of typographical errors, many of which the APB failed to correct in this Second Exposure Draft. If this document is eventually adopted as an Appraisal Foundation Valuation Advisory, we suggest a thorough proof-reading of the document to

Appraisal Institute Comments on the APB's "Second Exposure Draft: Voluntary Guidance on Recognized Valuation Methods and Techniques: *Valuation of Green Buildings: Background and Core Competency*"

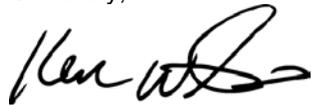
ensure that all errors are corrected. The following is a list of the errors we easily spotted while reviewing the draft:

- Page 7, first bullet point: Remove "r" after "/."
- Page 12, third full paragraph: This should say "accurately identify."
- Page 22, first paragraph: Change "form a Level 1" to "from a Level 1."
- There is inconsistent formatting in the document, such as capitalization of subsection headings. For instance, the page 28 subsection heading reads *Expectations for appraisers/thresholds for competence* and the subsection heading on the previous page reads *Influence of Bias*.
- While use of the term "conventional" instead of "brown" is an appropriate change, this change has not been applied consistently throughout the document. The term "brown" remains on page 4, for example, as well as several other locations throughout the draft.

**Conclusion**

As you know, the Appraisal Institute has many objections to the existence of the Appraisal Practices Board and its functions. Should The Appraisal Foundation continue with this effort we certainly hope that it will ensure, at a minimum, that appraisers receive accurate, proper and competent guidance.

Sincerely,



Ken P. Wilson, MAI, SRA  
2014 President

Cc: Mr. Rick Baumgardener, SRA, Chair, Appraisal Practices Board  
Mr. Arthur Lindo, Chairman, Appraisal Subcommittee