



September 22, 2011

Ms. Brenda Edwards
U.S. Department of Energy, Building Technologies Program
Mailstop EE-2J
Revisions to Energy Efficiency Enforcement Regulations
1000 Independence Avenue, SW.
Washington, DC 20585-0121

Re: EERE-2011-BT-NOA-0049

Dear Ms. Edwards:

On behalf of the nearly 30,000 members of the Appraisal Institute and the American Society of Farm Managers and Rural Appraisers, thank you for the opportunity to comment on the Department of Energy's request for information on the proposed Asset Rating program.

Our organizations applaud the Department's intentions to bring forward more information on energy consumption in commercial real estate and, specifically, attempting to help inform investors, operators, tenants, financiers and others assess current system operations and areas for improvement. As the largest professional associations of real estate appraisers in the United States, we wish to work with the Department to ensure that information gathered is useful to professional real estate appraisers. The role of real estate appraisers in energy efficiency is important, given that financial institutions, developers and regulatory agencies and others turn to our members to provide objective opinions of value in collateralized mortgage lending. We appreciate the fact that the Department aims to include real estate appraisers as a potential user of the tools developed through the program, and we stand ready to assist in this effort.

To this end, we commit to incorporating information on how Asset Rating tools may be utilized by the appraisal profession in education programs already available to appraisers, as well as those currently under development. A strong body of knowledge on the valuation of sustainable properties already exists within the real estate appraisal profession, which is continuously supplemented by new information and tools. In fact, the tools stemming from the Asset Rating program are likely an ideal fit for the Appraisal Institute's Valuation of Sustainable Properties professional development program, which is composed of three courses – an introductory course and two case studies courses, one of which is focused on commercial real estate. The course on commercial real estate case studies, which is scheduled for release in 2012, can likely incorporate illustrations on how appraisers may utilize ratings programs to supplement existing analysis of market conditions, once operational.

We have several recommendations to help accomplish the goal of providing useful information to real estate appraisers, as follows:

1. We encourage the Department to gather as much market data as possible in the collection stage of the asset rating effort.

As a general rule, the more information in the hands of the appraiser, the more credible the analysis can be. Information such as monthly or annual energy savings, but also rental rates, sales prices, and operating costs, is critical for real estate appraisers to properly analyze the potential impact of energy efficiency on pricing decisions. This is important because the job of real estate appraisers is to translate market behavior into economic terms.

For instance, real estate appraisers typically analyze “source energy” information when it is reduced to a dollar figure. Wherever possible, we urge that the Department make every effort to convert energy information into monthly or annual monetary factors. In addition, we encourage the Department to go one step further and also gather information on rental rates, sales prices and operating data. This would help position real estate appraisers to actually analyze the market impact of such features.

To a similar extent, we would emphasize that pricing behavior of energy efficiencies must be reflective of the actions of market participants. The market, not appraisers, will determine this, as appraisers simply report market behavior. Market segmentation – both by property type and geography – can play a part. In some markets, buyers and sellers may place a premium on such factors, wherein others may represent an “over-improvement.” Energy efficiency may be more of a measurable factor in office markets than, say, retail markets. With robust market information, real estate appraisers are adept at analyzing whether such features are “super-adequacies” (improvements that cost more than their contributory value) or “deficient.” Until then, we are in the observation phase of the process. We do not believe it would be appropriate to give a green premium without sufficient market evidence.

2. The Asset Ratings program cannot be a “stand alone” approach to assessing buildings.

The rating system appears to be focused almost exclusively on a building’s systems. While this is good information, how it is gathered and, more importantly, how those systems are operated, are just as critical to an appropriate overall assessment of a property. It is not clear whether the Asset Rating is to work in tandem with Energy Star, which is more performance-based, and the qualifications necessary to rank building systems and associated costs. The Department’s standard appears to be similar to the new ASHRAE standard. In our view, duplicative standards may confuse the issue. We urge the Department to identify all differentials moving forward.

Getting accurate performance data and analyzing it appropriately are equally important considerations for appraisers. This includes not only the Department’s efforts, but information on operational costs associated with green strategies – as compared to those for traditional construction. This is a critical area of study. Identifying and quantifying the longer term benefits of various strategies (retro-fits, etc.) is where we find the least amount of knowledge throughout the real estate sector, including investors, underwriters and other real estate participants. Appraisers receive or obtain wide-ranging and inconsistent information on costs, but very few individuals or groups are actually tracking and benchmarking how properties are performing and what the actual results are after energy-efficient strategies are employed. We believe that post-occupancy evaluations will be extremely important for appraisers to request and actually use to evaluate whether results are positive.

In the end, real estate participants need to collaborate in assembling significant amounts of data, process it to assure confidentiality, and publish it for the wide range of market sectors and geographic areas. To the extent the Department can work directly with stakeholders to address these outstanding issues, we encourage it.

3. Continue to partner with appropriate constituencies.

We strongly believe that the Department should partner with organizations like ours and others in the real estate industry to ensure the usability of data considered by appraisers and to achieve significant buy-in across the real estate community. To this end, we encourage the Department to continue aggressive outreach to major real estate professional organizations such as BOMA International, IREM, Real Estate Roundtable, the American Institute of Architects and others, as it proceeds. Many appraisers utilize data systems provided by such organizations, and it will be essential for any asset rating data to communicate with such systems if it is to be used effectively by appraisers.

We are aware of several concerns being raised by major real estate organizations regarding the proposal. Specifically, concerns have been raised over the need for, and benefits of, an asset rating program over existing building rating programs, particularly the EPA’s Energy Star program. Also, we understand that there also may be concerns with experiences with similar “Energy Performance Certificate” programs in Europe. Such programs are based on a building’s as-built design and do not account for operations and actual building performance. We

urge the Department to continue working with major real estate professional groups to avoid the replication of programs that may have limited success.

Further, based on conversations with Department staff, we understand that green valuation curriculum development for appraisers, as envisioned in the Memorandum of Understanding between the Department and The Appraisal Foundation, is several steps away. Therefore, we reiterate our interest in partnering with the Department on this effort. As previously stated, the Appraisal Institute already has developed a professional development program for real estate appraisers in this area. Information on new tools and how they may be utilized by appraisers will be incorporated into this program directly and/or by supplementation.

It is important to note that this professional development program currently is available to all appraisers, not just Appraisal Institute members. A separate, Department-developed curriculum could put the Department in an awkward position of competing with established professional organization education providers and may have the unintended effect of dampening the development of education on this important issue. In light of this, we ask the Department to consider working with all organizations to ensure that information on Department programs is contained in existing education programs.

4. Rephrase goals relative to appraisals.

We are concerned with how the appraisals are characterized by the Department in the RFI. Specifically, the RFI implies that current appraisals are not “accurate” because very little usable information on energy efficiency is available. The term “accurate” is problematic with appraisals because appraisals are *opinions*, not facts. It is possible for there to be differing opinions that are well supported. Under the Uniform Standards of Professional Appraisal Practice, energy efficient features must be considered in all approaches to value that are developed in an appraisal if energy efficiency is a relevant characteristic. In theory, any premiums paid by buyers and sellers would be shown in sales data used during the sales comparison approach. In addition, the costs to build such properties would also be derived through the cost approach. Further, perhaps the most straight forward approach – the income capitalization approach – would evaluate lease rates, operating expenses (which would already consider energy costs), and the resulting net operating income. However, the appraisal process is not this simplistic. For instance, many lease clauses pass on any energy savings to tenants, which would have no reflection on net operating income. Further, many data systems today do not capture energy efficiency features or labels, making specific market identification difficult.

This is where the Department can help. Appraisers would be better positioned to draw comparisons and analyze such impacts if the Department collected as much market information as possible, as part of the project. We respectfully request, moving forward, that the Department avoid using the term “accurate” relative to appraisals, and we encourage the Department to make “enhancing the credibility” of appraisals one of the goals.

Thank you, again, for the opportunity to comment. We look forward to working with you in the development of this important program. Should you need any additional information, please contact Bill Garber, Appraisal Institute Director of Government and External Relations, at 202-298-5586 or bgarber@appraisalinstitute.org or Brian Rodgers, Appraisal Institute Manager of Federal Affairs, at 202-298-5597 or brodgers@appraisalinstitute.org.

Sincerely,

Appraisal Institute
American Society of Farm Managers and Rural Appraisers