

**DEPARTMENT OF PROFESSIONAL
AND OCCUPATIONAL REGULATION**



REAL ESTATE APPRAISER BOARD

Report to the

**House Committee on General Laws
Senate Committee on General Laws and Technology
Housing Commission**

*Evaluation of Continuing Education Requirements for
Appraising the Effects of the Use of Energy Efficiency and
Renewable Energy Equipment on the Fair Market Value of
Non-Income-Producing Residential Real Estate*

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Department of Professional and Occupational Regulation

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PREFACE

The Real Estate Appraiser Board prepared the report contained herein pursuant to Chapters 49 and 388 of the 2012 Acts of Assembly (House Bill 433 and Senate Bill 507).

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EXECUTIVE SUMMARY

The Real Estate Appraiser Board evaluated the availability and need for continuing education on the topic of appraising residential real estate with energy efficient features and equipment. Based on its research and public comments received, the Board concludes existing continuing education curricula which comply with federal guidelines appear sufficient for licensed appraisers.

The Board recommends against the development of additional, Virginia-specific continuing education on this topic as a condition of license renewal.

BACKGROUND

During the 2012 Session, the General Assembly approved, and Governor McDonnell signed, companion legislation House Bill 433 and Senate Bill 507. Both acts require the Real Estate Appraiser Board to evaluate the development of a continuing education curriculum for licensees that includes the effects of the use of energy efficiency and renewable energy equipment on the determination of the fair market value in the appraisal of non-income producing residential real estate.

Congress passed the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA) in 1989 as a result of the savings and loan crisis. The purpose of Title XI of FIRREA is to:

provide that federal financial and public policy interests in real estate transactions will be protected by requiring that real estate appraisals utilized in connection with federally related transactions are performed in writing, in accordance with uniform standards, by individuals whose competency has been demonstrated and whose professional conduct will be subject to effective supervision.

Title XI accomplished this by establishing the Appraisal Subcommittee (ASC) which monitors the appraisal licensing and regulatory requirements established by states and their state appraiser boards. The ASC also monitors the practices, procedures, and activities of the Appraisal Foundation (TAF). The TAF consists of the Appraiser Qualifications Board (AQB), the Appraisal Standards Board (ASB), and the newly formed Appraisal Practices Board (APB).

The AQB sets minimum qualifications all states must meet in licensing appraisers, including setting continuing education license renewal requirements. The ASB promulgates the Uniform Standards of Professional Appraisal Practice (USPAP) which are incorporated into the Board's

regulations and must be followed by all Virginia licensed appraisers. The APB identifies and issues opinions on recognized valuation methods and techniques within the appraisal profession.

Board regulations follow the federal standard which requires appraisers to complete 28 hours of continuing education during each two-year license renewal cycle, which must include a 7-hour National USPAP Update course.

The terminology in the Acts—“energy efficiency and renewable energy equipment”—refers to equipment used in what are commonly known as “green homes” or “green buildings.” Although there is not yet a universally accepted definition for these terms, the following explanation from *An Introduction to Green Homes* (2010), by Alan F. Simmons, is instructive:

The U. S. Green Building Council (USGBC), a nonprofit organization dedicated to expanding sustainable building practices defines a *green building* as a building that is designed, constructed, and operated to boost environmental, economic, health and productivity performance over that of conventional buildings. The National Association of Home Builders Green Building Program, www.nahbgreen.org, defines a *green home* as one that pays attention to energy efficiency, water and resource conservation, the use of sustainable or recycled products, and measures to protect indoor air quality. The Office of the Federal Environment Executive (OFEE) defines *green building* as “the practice of 1) increasing the efficiency with which buildings and their sites use energy, water, and materials, and 2) reducing building impacts on human health and the environment, through better siting, design, construction, operations, maintenance, and removal -- the complete building cycle.” Finally, the *Dictionary of Real Estate Appraisal*, fifth edition, defines *green building* as “the practice of creating structures and using processes that are environmentally responsible and resource-efficient through a building’s lifecycle from siting to design, construction, operation, maintenance, renovation, and deconstruction; also known as sustainable or high-performance building.

STUDY METHODOLOGY

The Board sought public comment by posting a Notice in the June 4, 2012, volume of the *Virginia Register of Regulations* (<http://register.dls.virginia.gov/>). The Board received three public comments¹, summarized as follows:

1. April 4, 2012, email from Richard Good of Solar Services, Inc., providing information regarding appraising solar electric systems;
2. May 3, 2012, email from appraiser Don Clark providing information regarding the appraisal and sales of green homes, and the availability of green appraisal educational resources; and
3. July 27, 2012, letter from the presidents of the four Virginia Appraisal Institute Chapters, representing 593 Virginia-regulated appraisers, expressing support for the Board's current continuing education requirements and opposing requiring appraisers to complete continuing education in one certain topic (i.e., appraising green homes).

The Board surveyed other states to determine whether they impose additional continuing education requirements specific to appraisals of green homes. Among all 50 states, four mandate continuing education in defined non-elective topics (beyond USPAP requirements), none involving energy efficiency or renewable energy equipment specifically.

State	Total CE Hours (Over two-year term)	Mandatory USPAP Course Hours	Other Mandatory Hours & Topics	Elective Hours
AL	28	7	0	21
AK	28	7	0	21
AZ	28	7	0	21
AR	28	7	0	21
CA	28	7	0	21
CO	28	7	0	21
CT	28	7	3 hrs: CT Appraisal Law Update	18
DE	28	7	0	21
FL	30	7	0	23
GA	28	7	0	21
HA	28	7	0	21
ID	30	7	0	23
IL	28	7	0	21
IN	28	7	0	21

¹ For full text of public comments, contact Board Administrator Kevin Hoeft at (804) 367-2426 or REAppraisers@dpor.virginia.gov.

State	Total CE Hours (Over two-year term)	Mandatory USPAP Course Hours	Other Mandatory Hours & Topics	Elective Hours
IA	28	7	0	21
KS	28	7	0	21
KY	28	7	0	21
LA	30	7	0	23
ME	28	7	0	21
MD	28	7	0	21
MA	45	7	0	38
MI	28	7	0	21
MN	30	7	0	23
MS	28	7	0	21
MO	28	7	0	21
MT	28	7	0	21
NE	28	7	7 hrs: Report Writing	14
NV	30	7	0	23
NH	28	7	0	21
NJ	28	7	0	21
NM	32	7	7 hrs: NM Renewal Course	18
NY	28	7	0	21
NC	28	7	0	21
ND	28	7	0	21
OH	28	7	0	21
OK	28	7	0	21
OR	28	7	0	21
PA	28	7	2 hrs: PA Appraisal Law Update	19
RI	28	7	0	21
SC	28	7	0	21
SD	28	7	0	21
TN	28	7	0	21
TX	28	7	0	21
UT	28	7	0	21
VT	28	7	0	21
VA	28	7	0	21
WA	28	7	0	21
WV	28	7	0	21
WI	28	7	0	21
WY	30	7	0	23

RESEARCH FINDINGS

Green building is a fast-growing segment of the housing industry. According to McGraw-Hill Construction's 2012 report, *New and Remodeled Green Homes: Transforming the Residential Marketplace*, the "green" share of single-family home construction doubled from 8% in 2008 to 17% in 2011. The industry report also projects new "green" homes will command approximately one-third of the market share from 2011 through 2016.²

According to the McGraw-Hill Construction report, the cost to build a green home is seven percent greater than building a non-green home. The cost to remodel an existing home with energy efficient equipment and materials is eight percent greater than remodeling using conventional equipment and materials. New home customers are willing to pay an average of two percent more for a green home than for a conventional home. The additional costs to build a green home are not always recovered in the sales price of the home in the current market.

As the number of green homes increases, appraisers are better able to quantify the value of the energy efficient materials and equipment in these homes. For example, one tool for appraising green homes is the "Residential Green and Energy Efficient Addendum" to Fannie Mae's Uniform Residential Appraisal Report (Form 1004), introduced by the Appraisal Institute in September 2011.³ This addendum offers appraisers a checklist to identify green features more easily and other energy efficient items.

The growing supply of green homes presents new business opportunities to appraisers. As the demand increases for appraising green homes, more appraisers are expected to meet this market demand. These appraisers must possess the necessary skills and tools to produce a credible appraisal. However, as with specialization in any professional field, not all appraisers will choose to value green homes. Some licensees appraise only commercial and/or industrial property; others only appraise rural property; and still others only perform relocation appraisals. Appraisers who are not qualified to appraise green homes are required by the Uniform Standards of Professional Appraisal Practice (USPAP) Competency Rule to decline or withdraw from those types of appraisal assignments until they do acquire the necessary competency.

The Board's research suggests market-based supply-and-demand is ensuring adequate continuing education resources and opportunities for licensees to learn the proper methods and techniques to value green homes. This specialized field of appraisal continuing education appears to be dynamic and growing rapidly.

² Report available at: <http://www.nahbgreen.org/Content/pdf/NewAndRemodeledGreenHomes.pdf>

³ Addendum form available at:

http://www.appraisalinstitute.org/education/downloads/AI_82003_ReslGreenEnergyEffAddendum.pdf

Professional organizations, such as the Appraisal Institute and the National Association of REALTORS®, regularly offer classroom and online green valuation and other green real-estate-related continuing education courses. Proprietary schools, such as McKissock, PorterWorks, and Earth Advantage Institute also offer green valuation courses and green certifications. Numerous articles on green buildings have been published in appraisal journals and other trade publications. [See Appendix]

The Appraiser Qualifications Board (AQB), which establishes the minimum national standards each state must implement for appraisal continuing education, added the “valuation of green buildings” as an identified continuing education topic for its *Real Property Appraiser Qualifications Criteria*, effective in 2015.⁴

The Board’s research also indicates more appraisal pre-license education courses and resources are preparing prospective appraisers with the knowledge and tools to appraise green homes. The 2015 AQB criteria referenced above will require that four appraisal pre-license education Core Curriculum courses include instruction on the valuation of energy efficient equipment. The national AQB appraiser licensing examination, required of all Virginia applicants, will also include questions on this subject.

The Appraisal Practices Board (APB) was formed by the Appraisal Foundation in July 2010. The APB is charged with the responsibility of identifying and issuing opinions on recognized valuation methods and techniques, which may apply to all disciplines within the appraisal profession. The APB already is developing guidance related to the valuation of green buildings.⁵

⁴ AQB Overview of Changes available at: <https://appraisalfoundation.sharefile.com/d/sd2f26fafefe402ab>

⁵ For more information about the Appraisal Practices Board, visit:
<https://netforum.avectra.com/eWeb/DynamicPage.aspx?Site=TAF&WebCode=APB>

RECOMMENDATION

Based on its research and public comments received, the Board concludes existing continuing education resources and opportunities are adequate on a voluntary basis to meet the needs of its licensees—and, ultimately, their clients—in appraisals of green homes. Data do not appear to warrant the imposition of an additional burden on all licensed appraisers.

As the market demonstrates value associated with “green” improvements, appraisal methodologies do follow. The Board recommends against the development of additional, Virginia-specific continuing education coursework required every two years for licensed appraisers. Existing continuing education curricula which comply with federal guidelines appear sufficient.

The Board will continue to monitor and evaluate its continuing education curriculum to ensure that courses on valuing green homes are available.

VIRGINIA ACTS OF ASSEMBLY -- 2012 SESSION

CHAPTER 49

An Act to direct the Real Estate Appraiser Board to develop continuing education curriculum for licensees; report.

[H 433]

Approved March 1, 2012

Be it enacted by the General Assembly of Virginia:

1. § 1. *That the Real Estate Appraiser Board shall evaluate the development of a continuing education curriculum for licensees that includes the effects of the use of energy efficiency and renewable energy equipment on the determination of the fair market value in the appraisal of non-income-producing residential real estate.*

§ 2. On or before November 1, 2012, the Real Estate Appraiser Board shall report its findings to the (i) Chairmen of the House Committee on General Laws and the Senate Committee on General Laws and Technology and (ii) Housing Commission.

VIRGINIA ACTS OF ASSEMBLY -- 2012 SESSION

CHAPTER 388

An Act to direct the Real Estate Appraiser Board to develop continuing education curriculum for licensees; report.

[S 507]

Approved March 23, 2012

Be it enacted by the General Assembly of Virginia:

1. § 1. *That the Real Estate Appraiser Board shall evaluate the development of a continuing education curriculum for licensees that includes the effects of the use of energy efficiency and renewable energy equipment on the determination of the fair market value in the appraisal of non-income-producing residential real estate.*

§ 2. *On or before November 1, 2012, the Real Estate Appraiser Board shall report its findings to the (i) Chairmen of the House Committee on General Laws and the Senate Committee on General Laws and Technology and (ii) Housing Commission.*

APPENDIX

Examples of Green Valuation Resources, Publications & Courses

- Appraisal Institute Resources and Publications
<http://www.appraisalinstitute.org/education/green/default.aspx>

- National Association of REALTORS® Green Designation
<http://www.greenresourcecouncil.org/>

- McKissock Course:
Foundations in Sustainability-Greening the Real Estate and Appraisal Industries
<http://www.mckissock.com/commonforms/searchcourses/coursedescription.aspx?course=685&mst=SD&mlt=1>

- McKissock Course:
The Nuts and Bolts of Green Building for Appraisers
<http://www.mckissock.com/commonforms/searchcourses/coursedescription.aspx?course=761&mst=RI&mlt=1>

- PorterWorks Green Valuation Specialist Designation
<http://www.porterworks.com/designations/gvs>

- Earth Advantage Institute Certified Residential Green Appraiser (CRGA)
<http://www.earthadvantage.org/education-events/certification/crga-certified-residential-green-appraiser/>