

INSTITUTE FOR MARKET TRANSFORMATION

Summary of Survey Findings on Energy-Related Business Practices of California Certified General Appraisers

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I. Introduction

The Institute for Market Transformation (IMT) has undertaken a project exploring the barriers to market recognition of energy efficiency's contribution to asset value in commercial properties. IMT is focusing its research and program efforts on professional appraisers, who, in estimating property value for building owners and lenders, exert significant influence on selling price and mortgage conditions. In May 1998, IMT, in coordination with the California Association of Real Estate Appraisers (CAREA), initiated a survey on the energy-related practices of certified general appraisers in California. The survey, designed and administered jointly by IMT and RLW Analytics, Inc., was completed in August 1998.

II. Sample Frame, Methodology, and Precision

IMT surveyed 69 certified general appraisers (CGAs) in California. CGAs represent the highest of five ranks of appraisal licensure in the state, and are the only professionals licensed to appraise industrial and large commercial properties in California. The sample frame was derived from databases supplied by CAREA, a large professional association, and the Office of Real Estate Appraisers, a state oversight and licensing agency. (In all, there are approximately 4,000 CGAs in California.)

The survey employed two data collection methods, a four-page fax survey and a telephone survey. The fax and telephone surveys contained the same questions, and there was no detectable bias among respondents for either of the two methods.

The estimated statistical precision of the survey is shown below in Table 1. Precision is estimated at the 90% confidence level. For example, for questions where 50% of the respondents answered "Yes" and 50% "No," the error bound of the estimate would be 9.8% — that is, if other random samples were to be drawn from this same population, 9 times out of 10 the estimate would fall between 40.2% and 59.8%.

Table 1. Estimated Statistical Precision of the IMT Appraiser Survey

Survey estimate	Standard error	Error bound	Low estimate	High estimate
0%	0	0.0%	0.0%	0.0%
10%	0.036	5.9%	4.1%	15.9%
20%	0.048	7.8%	12.2%	27.8%
30%	0.055	9.0%	21.0%	39.0%
40%	0.058	9.6%	30.4%	49.6%
50%	0.060	9.8%	40.2%	59.8%
60%	0.058	9.6%	50.4%	69.6%
70%	0.055	9.0%	61.0%	79.0%
80%	0.048	7.8%	72.2%	87.8%
90%	0.036	5.9%	84.1%	95.9%
100%	0	0.0%	100.0%	100.0%

III. Findings

Characteristics of Surveyed Appraiser Firms

The majority of survey respondents (80%) work for independent appraisal firms — over half of which have only one certified general appraiser in their office. Another 15% of survey respondents work in offices of five CGAs or more, with 20% of them conducting over 100 appraisals per year. These results imply that roughly two-thirds of the commercial appraisals in California each year are conducted by larger firms. In addition to commercial buildings, most respondents also do some work in the residential and industrial markets.

Recognition of Energy-Efficient Building Features

IMT found that direct acknowledgment of energy efficiency rarely occurs in property appraisals. Fifty-one percent stated that they rarely or never report the effects of specific energy-saving technologies or building materials in their assessment of building value. A mere 13% of respondents said that they do take these building features into account.

Determination of Energy Costs

While respondents generally fail to recognize energy-efficient features explicitly in their appraisals, they often do look at operating costs. Nearly half (45%) of the surveyed appraisers said that they always prepare an operating cost schedule as part of their appraisals — but, notably, only 20% of those look at energy bills in their determination. More commonly-used types of energy cost information include historical income and expense data (59%) and interviews with owners and sellers (35%), even though these sources may lack credibility insofar as they come from building owners themselves, who may have an incentive to present misleading information to boost their prospective selling price.

The other common method (43%) for determining energy costs for operating cost schedules is to look up statistical figures set out in standard references developed by the Building Owners and

Managers Association (BOMA), the Institute for Real Estate Management (IREM), and others. As the energy costs published in these sources are highly aggregated regional averages, appraisers using the references cannot differentiate between low-energy and high-energy buildings. Efficient buildings and inefficient buildings are treated as equivalent, at averaged consumption levels.

Perceived Importance of Accuracy of Energy-Cost Assessment

IMT also asked appraisers to rate the importance of accuracy in energy cost assessment, on the one hand, and their ability to achieve such accuracy, on the other. A stark disparity emerged. Fifty-eight percent of the respondents reported that the accuracy of their estimates of energy-related operating costs is considered important (rated 5 or above on a scale of 7). A full 22% rated accuracy in this area as a seven, at the top of the scale of importance. However, most of the appraisers surveyed admitted room for improvement in their current ability to assess such operating costs related to energy; only 33% rated this ability at 5 or above on a scale of 7, and only 5% rated it as 7. These results indicate that despite appraisers' strong emphasis on accuracy in their calculations of energy costs, it is rarely achieved in practice.

Appraisers were also questioned about their level of interest in enhanced energy-related information. More than half (54%) responded that if reliable, easy-to-use methods for estimating a building's operating costs were presented to them from a credible source, they would "probably or definitely" use such a tool. Many of these respondents commented that their commitment to accuracy was the main reason for their interest in such tools and methods.

IV. Summary

IMT's key conclusions are summarized below.

- Appraisers generally do not consider the presence or absence of energy-efficient technologies in their assessment of property value.
- Appraisers do consider energy costs for commercial buildings, but most often, base their estimates of such costs on seller's disclosures (which may lack credibility) or on averaged standard references (which lack building-specific accuracy).
- A significant number of appraisers would welcome improved energy performance tools and information, but such enhanced informational resources are not available to them now.

IMT, with support from the Environmental Protection Agency and Pacific Gas & Electric Company, is now moving to a new project stage, seeking to address the needs revealed by the survey, and to create new forms of energy-performance documentation for use by appraisers.