

Shining Light on Energy Auditing

by David Brauner, Editor



Editor's Note: *Appraisers and Home Inspectors are catching the energy-auditing wave—diversifying and adding to their bottom lines.*

As environmental concerns among Americans reach a tipping point—saving our planet, becoming energy independent, saving money on the soaring cost of energy—appraisers, inspectors and others are diversifying their incomes by adding energy rating/auditing to their list of services.

Money Talks—Lender Incentives

Environmental concerns are an important driver but money is a powerful motivator. A number of lenders and government agencies are offering mortgage deals to people who borrow money to make their homes more efficient or who buy homes that already meet high efficiency standards. Some offer discounts of \$500 or more on closing costs for a refinance or new mortgage. Other plans offer a lower interest rate on the loan, sometimes a half-point or more below the current market rate.

Some programs factor in potential energy bill savings into qualifying income, which may allow people to borrow more money. Even minor efficiency upgrades can bring hundreds of dollars a year in savings and potentially help people qualify for a bigger loan.

First: Energy Audits

The American Clean Energy and Security Act of 2009, which passed the House in June 2009, includes provisions designed to encourage energy-efficient housing. Among other things, the bill requires Fannie Mae and Freddie Mac to offer incentives to get more borrowers to use energy-efficient mortgages.

To qualify for these plans, the first step is generally an energy audit. If borrowers are buying a new home, it

must meet certain efficiency standards, often the federal government's Energy Star benchmarks. If they're looking for a refinancing or second mortgage, they must agree to reduce their current energy usage by a certain amount through upgrades like buying new appliances or insulation. The cost of the upgrades is bundled into the mortgage, and buyers pay it back over the life of the loan.

One of the most common incentives is a discount on closing costs. J.P. Morgan Chase & Co. gives customers \$500 off the costs if they use the loan to make energy-efficient improvements or buy a new home that meets Energy Star standards. Borrowers can also get that discount on the purchase of Energy Star appliances when they tap the equity in their home with a cash-out refinancing. Likewise, Bank of America offers up to a \$1,000 credit on closing costs if a newly constructed property meets Energy Star requirements, according to a *Wall Street Journal* story (*WorkingRE.com*, Sidebar, *Green for Green*).

Meanwhile, a number of lenders offer deals that take into account sav-

ings from monthly energy bills and allow those to be added into the qualifying income, possibly allowing the borrower to get a larger loan. So, if borrowers earn \$3,000 a month and save \$400 on bills, the lender would consider their income \$3,400.

Borrowers can potentially add quite a bit to their qualifying income this way, since even simple fixes can bring big savings on energy bills. Air sealing, for instance, helps reduce heating and cooling costs by as much as 30 percent and runs just \$300 to \$500 if you do it yourself or \$1,500 to \$2,000 for a contractor.

The Federal Housing Administration offers a similar plan through its approved lenders that lets borrowers bundle the price of certain cost-effective efficiency improvements into a loan.

Home Inspectors—Energy Auditing

Bob Spermo, a home inspector in San Antonio, Texas, is happy he added the service. "The energy arena is a nice addition for the home inspector. I completed RESNET certification (\$1,500) in September 2008 and bought my equipment in October (\$4,400). Six months later I had already completed



GETTING STARTED

Patterson has written the 41-page report called the Real Estate Appraisers & Building Inspectors Guide to the Energy Auditing Business (\$30—workingre.com, click Energy Guide). The Guide (PDF) provides a jump start for this exciting growth opportunity from an appraiser who has already integrated the service into his appraisal practice. The Guide offers an overview of the industry, the nuts and bolts of what is required, including training, equipment, certification, marketing and the "how to" of applying your appraisal skills and expertise to energy auditing.

Patterson says, "There is a unique market opening up in the energy auditing business that allows appraisers, inspectors and others to expand their services, while continuing to do what they have been doing and make more money. The Guide brings the ideas to you, showing you how to connect with other appraisers doing the same thing. Learn the costs, potential income and the dos and don'ts of utilizing your existing talents in this growing and exciting new industry." **WRE**

seven Energy Star Certifications for over \$6,000. The energy market will continue to increase as many jurisdictions, like Austin, Texas, begin to require energy audits (with duct blaster) for older home sales," Spermo said. "Offering a pre-listing inspection and an energy audit to the seller is a nice combination. Beginning in January 2010, San Antonio, Texas, will require all new construction to be Energy Star Certified."

According to Spermo, Energy Star Certification for new residential construction requires a pre-insulation inspection, a post insulation installation inspection, a final inspection that requires a blower door and duct blaster test and about two hours of work (if you have the blueprints) putting everything into the computer. "The going rate for an Energy Star Certification is between 20 and 30 cents per square foot of living space," Spermo said. "My minimum is \$500 for a small house. Two of the houses I have done are over 6,000 square feet. The typical Energy Star cert takes me between six and seven hours of work. I have been doing Energy Star Certs for builders that I do phase inspections for and for others. I have also done energy audits for energy efficient mortgages (which requires a blower door) for between \$175 and \$200."

Spermo said his RESNET training made him a more knowledgeable inspector. "Adding an energy program is not for every inspector but I enjoy doing something a little different," he said.

Appraisers—Energy Auditing

Jeff Patterson, an appraiser in Maine and the author of *Real Estate Appraisers and Building Inspectors Guide to the Energy Auditing Business* (see sidebar), has been doing energy auditing for some time and finds that appraisers are "naturals" at the work.

"The service involves a thorough survey or audit of a home or property

and assisting owners in lowering energy costs," said Patterson. "Once a home is audited the 'energy efficient' improvements are eligible for many financial rewards such as tax deductions, grants and low interest loans. The process requires accurate measurement of the property, calculating the return on investment, coupled with an appraiser's expertise and knowledge of real estate markets—specifically how these improvements will effect operating cost and value. Who better than an appraiser?"

Patterson continues, "Last spring I took a two week training course through the Maine State Housing Authority (MSHA). The cost of the training program was \$575. A few months later I learned that MSHA offers a coupon to new home buyers who have bought a house with them in the past three years. The coupon is good for two energy audits. One coupon pays the energy auditor \$350 and if improvements are done, a follow up audit for \$150. Pulling sales from the MLS in my area, I found 108 properties that sold through MSHA in the past 24 months. By contacting these homeowners I believe it is

reasonable to get 50 inspections. Even if I charge only \$350 it will generate \$17,500 in additional revenue this winter. Then when the second audit is done, and let's say on only half of the audits I have already done, I would bring in an additional \$3,750, increasing my revenue this winter by over \$21,000."

At this critical (post HVCC) point in the profession, many appraisers are searching for a way to distinguish and diversify their practice—energy auditing may be one answer.

"I don't want to compete with those doing an appraisal for \$95 or \$275," Patterson said. "I am more than a vendor; I'm a real estate professional, and as always, I need to change and adapt as the industry changes. I have been in this business 30 years and I believe that to stay competitive, I must never stop learning and growing."

Patterson continues, "An energy audit takes about two to three hours to complete. That is less than half the time it takes to complete an appraisal report and I will earn more than what the AMCs want to pay me. I think this is a perfect time for appraisers to look at diversifying their revenue stream." **WRE**



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