

NAR Sustainability Advisory Group Market Transformation White Paper

Executive Summary

The Inflation Reduction Act (IRA) represents a historic opportunity for the real estate industry and energy efficiency advocates to work together to raise the bar on our nation's housing stock for the good of homeowners, sellers, and buyers, and to further state goals. Millions of homes will be upgraded because of the IRA's energy efficiency rebates and tax credits. Impact from these upgrades will include more than energy savings – these upgrades will also impact the data captured on homes, how these homes are marketed at resale, and ultimately home value.

This paper, written by the National Association of REALTORS Sustainability Advisory Group, with input from the Appraisal Institute and the Council of Multiple Listing Services, recommends specific actions for state energy offices to consider when creating their rebate programs and required Market Transformation Plan. It includes a list of resources and tools already in the market that could scale with the programs. It also includes suggested strategies for partnering with REALTOR associations and other stakeholders to increase the impact of the rebate programs and solve for specific challenges agents face.

Background

The National Association of REALTORS' Sustainability Advisory Group (SAG) was established in 2018, with a mandate to:

1. Evaluate, monitor, analyze and implement means and methods for integrating sustainability into all aspects of residential and commercial real estate.
2. Recommend the design, implementation and evaluation of a Sustainability Plan and Triple Bottom Line (social benefits, environmental considerations, and strong economies) practices to promote and support sustainability throughout NAR and the real estate sector.
3. Provide information and make recommendations to Committees for appropriate creation, revisions, or improvements to policy and programs, as necessary.
4. Provide education and information on sustainability-related issues to the Board of Directors and appropriate committees.

It is composed of REALTOR members who are agents, brokers, committee chairs, and representatives from MLSs and NAR's REACH portfolio companies. Many SAG members are experienced in energy efficiency and policy as it relates to real estate and are active in their own states and localities to promote sustainability.

NAR's 2023 - 2025 Strategic Plan directs its staff, members, and associations to focus on six pillars for Leadership and Influence. Two of the 2025 pillars are directly implicated by the US government's \$8.8 billion Inflation Reduction Act's energy efficiency rebate programs:

- **Housing Production and Access:** Improve housing availability, affordability, accessibility and sustainability to better meet consumer demand.
- **Climate and Sustainability:** Raise member understanding of the impact of climate change and the importance of sustainability practices to our industry. Become the recognized leader and resource for industry and community sustainability and resiliency.

There is a direct link between NAR's strategic priorities and the IRA's rebate programs via climate and sustainability. **IRA guidelines require states to engage the real estate industry regarding the value of homes upgraded in these rebate programs through the completion and execution of a Market Transformation Plan:**

"To ensure that the State program facilitates market transformation, each State must submit a Market Transformation Plan within the first year after receiving the financial assistance award. DOE must review and approve the Market Transformation Plan prior to the State receiving the third tranche of funds. A Market Transformation Plan must:

- *Describe how the State program will **enable the market to recognize the value of homes that have been upgraded through the Home Energy Rebates, including at time of sale/rental.** At a minimum, the plan must include a strategy for aggregating home data from the home assessment (as described in 3.2.1) and/or home certification (as described in section 3.2.5) and making such data available to real estate stakeholders."*

This white paper has a dual purpose. First, it is designed to advance the SAG's and NAR's strategic priorities referenced above by outlining ways in which NAR supports the implementation of the IRA residential rebate programs. Second, it will give state Government Affairs Directors and association leaders a tool to engage their state energy offices with respect to real estate market transformation. We appreciate the contributions from the Council of Multiple Listing Services and the Appraisal Institute – they are important stakeholders in the

market transformation discussion. When approached with a collaborative spirit, states and the real estate industry can work together to implement initiatives to create impactful solutions that support NAR members while improving the homes and lives of their clients.

The IRA Opportunity

The Inflation Reduction Act signed by President Biden on August 16, 2022 is the most consequential piece of climate legislation ever passed in the U.S. Just over 20% of emissions come from heating, cooling, and powering our homes. As SAG members who have devoted a significant portion of our careers to developing expertise in sustainable housing, including teaching what we know to other agents, we see a tremendous opportunity for the real estate industry to partner with state and local governments to create market conditions that ensure energy efficient (aka “high-performance” or “green”) homes are visible and properly valued when sold.

While policymakers are interested in supporting energy efficiency because it improves the affordability and quality of homes while reducing energy consumption, we see another benefit: there is a major business opportunity for agents in making energy efficiency an important part of the resale transaction. Real estate agents are central to a successful transaction for sellers and buyers, and the right approach to showcasing energy efficiency can help them uniquely create more value for their clients, as well as drive uptake for more home improvements that enhance home value.

We are concerned, however, that this opportunity could be lost due to lack of understanding, communication, and coordination between state energy offices and the real estate community. Should our two industries miss the opportunity to collaborate, it's likely we will end up with a “check the box” solution that inspires no meaningful change and no true market transformation. It is important for states to understand how the public sector can help real estate create viable business models around energy efficiency, as opposed to hurdles that must be overcome.

The Real Estate Business Case for Energy Efficiency

Energy efficiency advocates might argue that the real estate industry has been slow to recognize the benefits associated with energy efficiency and its role in helping make these features more visible in resale transactions. It's true that some agents could be more informed on energy efficient features and have more to learn about how comfort, convenience, and indoor air quality can be improved by these features. While many multiple listing services have

a limited set of data points to store and display information about energy efficiency, these fields are often left blank because of an information and/or knowledge gap regarding when to use them. Relatedly, most appraisers have not gotten training on how to value these features even when they are marketed as present in the home. Of course, the challenges don't stop with appraisers, but also include the lenders and the government-sponsored secondary market entities (Fannie Mae and Freddie Mac), that ultimately have the final say on acceptable appraisal methodologies.

The IRA creates new opportunities to resolve this set of issues, such that high-performance, energy efficient homes are properly marketed and valued at time of sale. To enable the market transformation goal of these rebate programs, **the real estate industry needs tools that will enable agents and brokers to leverage energy efficiency in ways that enhance their businesses.** What the public sector has historically provided has not met these business needs. It's important to understand that the real estate industry is driven by individual agents who are independent contractors, even when working within a brokerage. As such, they are classic small businesses: they are focused on generating revenue, containing costs, and providing high-quality services. **The key to getting agents to make energy efficiency a part of their business is to ensure that it helps them provide better services to their clients and enhances established business practices.**

In a market context in which online real estate portals like Zillow and iBuyer companies like Opendoor are competing with the traditional real estate model, real estate agents are under increasing pressure to deliver value to their clients. They do this in part by serving as their clients' source of trusted information about their home throughout the homeownership life cycle. Agents help buyers navigate the home purchase, provide advice about home improvements and home improvement contractors during homeownership, and help the owner prepare the home for sale. During the sale, the seller's agent helps the owner get the highest price possible, and the buyer's agent helps the purchaser negotiate the best deal. Energy efficiency can fit very effectively into this business model:

- During the sale, the seller's agent can highlight a home's overall efficiency and efficient features either by their own means or through a third-party certification or energy label (or both), potentially increasing the sales price for their client
- In the case of an old or inefficient home, the buyer's agent can provide the buyer with resources for making improvements following purchase by sharing information on applicable rebates and tax credits in situations where the home's systems are outdated and inefficient - s/he may even suggest a green mortgage to the buyer

- During the homeownership period, the agent can advise the homeowner on how to find the right home assessor or contractor

A real estate agent has to be an expert on a wide range of issues: market trends, listing practices, financing, title issues, and so on. It is unrealistic to expect that most will also become energy efficiency experts. Because agents are small businesses in their own right, they are sensitive to costs and demands on their time. Agents have well-founded concerns that an energy efficient home will be properly valued in the appraisal and underwriting processes, making it impractical to market the home with a price premium. Many agents have sold homes with rooftop solar and have seen first-hand how appraisers can attribute no value to the solar panels. Similar problems can easily arise in the sale of an efficient home.

While real estate agents have a compelling case to make energy efficiency a part of their regular business practice, they need:

- Verified information for the MLS and marketing materials that explain a home's efficient features in ways that make the home stand out, so that it is interesting to potential buyers and enables the seller's agent to deliver value to their client in the form of a faster sale and/or a higher sales price
- Simple, well-designed, easy-to-use resources and tools so that the agent can be the source of information without having to become an energy expert. These might include resources to help the buyer of an inefficient home make improvements. Some examples are rebate search finders and access to high-quality contractors, so that the buyer can purchase a relatively inefficient home with confidence, and address bill or comfort problems post-purchase
- Education on certain energy efficient features that have the most impact on total cost of homeownership and quality of life (e.g., what is an energy efficient heat pump or the benefits associated with air sealing)
- Information to provide the appraiser that supports an appropriate valuation for a high-performing home, and a local pool of trained appraisers who understand how to use the information

If a state can help provide agents with these tools, they will see agents start to showcase efficient homes and educate their clients about efficiency – because it makes economic sense for them as small business owners.

State Energy Office <> Real Estate Industry Partnership: Information that should inform State IRA Rebate Program RFPs

Recommendations from NAR's Sustainability Advisory Group

- **Agent education** as delivered by NAR, State REALTOR associations, and local associations. Local and regional Multiple Listing Services can also provide education particularly on the importance of green and energy efficient fields in their systems. Organizations such as Elevate Energy, Earth Advantage, the US Green Building Council, the Home Builders Association, and Pearl Certification would be valuable education partners for an effective Market Transformation Plan that reaches real estate professionals. We suggest that states provide some funding to help develop and subsidize this education. Also, all states require some level of continuing education credits to maintain real estate licenses. In states that do not have continuing education (CE) classes on energy efficiency, renewable energy, and new incentives like those funded by the IRA, we suggest that they develop such classes. Even in states that do offer CE classes that educate real estate licensees on green building and efficient remodeling, etc., incentives to promote engagement is critical. Providing some funding for real estate agents' professional education should be a priority since they interact with every participant in a real estate transaction.
- **Appraiser education** as delivered by the Appraisal Institute and other supporting entities. States could provide funding to help subsidize this education on appraising energy efficient homes.
- **Real Estate Standards Organization Data Dictionary 2.0** includes data fields that capture home improvements which will be rebated through the IRA's programs. It is up to local MLSs to implement the new version, and MLS engagement and education as facilitated by the Council of Multiple Listing Services will be important to accelerate the adoption of these new fields. States could provide funding to subsidize this outreach and/or convene stakeholders to help MLSs understand the importance of doing so.
- **Appraisal Institute's *Green and Energy Efficient Appraisal Addendum*** is a form available to download from the Appraisal Institute's website and can be completed by a third party certifier, builder, contractor, homeowner, listing agent, or appraiser. States could require their certification partner complete this report to support a future appraisal.
- **Pearl Certification:** Pearl was selected to participate in NAR's REACH Technology Accelerator because NAR recognizes the benefits Pearl brings to REALTORS and the industry. Pearl's third party certification supports the agent and the appraiser at time of sale with verified information on the home's features and an MLS Listing Report; equity calculator for the solar installation; a completed *Green and Energy Efficient Appraisal*

Addendum; letters to the buyer, lender, and appraiser; as well as an agent marketing package. Agents can search Pearl's online registry by address for certified homes and access the full certification report package, and Pearl's API can be used by MLSs to share data.

- **Green Building Registry:** agents can search Earth Advantage's Green Building Registry (GBR) by address to find homes with energy ratings and green certifications and download information associated with them; GBR also has data integrations with MLSs.

States should also develop strategies for engaging real estate agents as channel marketers for the rebate programs once they've launched. Agents have large spheres of influence with past clients with whom they stay in touch and who ask them frequently about home improvements. For example, states could provide agents with co-brandable collateral on the rebate programs and work with the local MLS on content for agent education and engagement on the rebate programs.

Specific to IRA's HOMES rebate program that requires a third party certification to support accurate valuation of the retrofit, states should engage with the real estate community to validate that the program certification can be used easily and effectively by agents as intended by statute. Ideally, the certification is a consistent standard from state to state (i.e., is national in scope) to minimize market confusion, optimize educational opportunities for agents and appraisers, and to simplify its inclusion as an MLS data field.

Certification considerations to keep in mind relate back to ensuring support for the agent in the sale transaction. The certification should:

- Identify energy efficient features to be included in the MLS
- Discuss the benefits of the home's energy efficient features in language that engages and interests the homebuyer to assist the listing agent with marketing the home
- Detail the energy efficient features in the Appraisal Institute's Green and Energy Efficient Addendum as recommended by the Appraisal Institute
- Include other relevant information, such as projected energy use/cost as compared to similar properties (total cost of homeownership)

Recommendations from the Appraisal Institute

The Appraisal Institute empowers valuation professionals through community, credentialing, education, body of knowledge and ethical standards. It is home to the largest group of valuation professionals nationwide, and its community includes real estate appraisers and property analysts who provide valuation-related services to mortgage lenders, financial

institutions, government agencies, attorneys, financial planners and others. It offers courses and credentialing for appraisers, including a section on valuation of sustainable buildings: Introduction to Green Buildings, Case Studies in Appraising Green Residential Buildings, and Residential and Commercial Valuation of Solar.

From an appraisal perspective, to ensure upgrades to properties rebated through IRA's programs are reflected in homes' future appraised values, the most important outcome to focus on is that robust data is included in the property's MLS (Multiple Listing Services) listing. Homeowners will need to have work invoices, home certification or score documentation, and/or other backing documentation to support full disclosure of relevant home features first to their listing agent and then to the appraiser. If a full energy efficiency disclosure is not made when listing a property for sale, this lack of disclosure to the appraiser can distort the results of the appraisal process. The appraiser will not be looking him or herself for these features absent the agent calling attention to them in the listing - and this includes any marketing materials or language used by the agent to sell the home. States should consider how this information can be made available to homeowners to share with their listing agent in a future transaction. The Appraisal Institute has developed a *Residential Green and Energy Efficient Addendum* ("Green Addendum") as a tool for appraisers to use to capture high performance property features for appraisers to consider. Ideally, home sellers, real estate agents, and other stakeholders should channel information to appraisers utilizing the Green Addendum, if they are not using it already.

It would also be helpful for appraisers to have access to information from the Uniform Appraisal Dataset (UAD) or Uniform Collateral Data Portal (UCDP). Many lenders and appraisal management companies have access to some of this data through the respective Collateral Underwriter and Loan Collateral Analysis tools. The concept of providing normalized data to appraisers, while protecting appraisal independence, has been discussed for many years. Recently, the Federal Housing Finance Agency (FHFA) began to release aggregate UAD to the marketplace, which is a step towards greater appraiser access. The Appraisal Institute encourages the FHFA, and government sponsored enterprises, to work with appraisal stakeholders to bring to market the concept of greater UDCP data to appraisers, including any energy efficient and "green" data. Any assistance the US Department of Energy or others at the federal level can provide here could help increase the effectiveness of states' Market Transformation Plans.

Lastly, the Appraisal Institute maintains an extensive body of knowledge, including a leading professional development program that covers advanced topics, such as the Valuation of Sustainable Buildings. The courses contained within this program are developed and taught by

practicing appraisers with years of experience in these areas. Once a program has been completed, that appraiser is added to the [program's registry](#), which allows potential clients to find them if they are looking for professionals with competency in that area. It would be helpful for states to provide funding to subsidize the training of more appraisers on high-performance home valuation. We encourage the use of such highly trained appraisers in appraisal assignments that involve high performance features. Lenders and AMCs should consult the registry to find a competent appraiser in their service area for energy efficient homes and/or homes with solar installations.

Recommendations from the Council of Multiple Listing Services

The Council of Multiple Listing Services (CMLS) is an association of over 225 MLSs committed to high standards of professionalism and performance. We define practices that improve MLS operations and leadership, advance policies that promote innovation and convene gatherings that foster growth. As a volunteer-led organization responsible for bringing the real estate industry together to build a better marketplace, we are driven by our mission and values and work every day to promote the value proposition of the MLS industry. Our mission is to set standards of excellence for MLSs and to support those who seek it.

CMLS believes that high performance, resource efficient homes are healthier, more comfortable, and cost less to maintain. However, such homes are not always easy to find because listing data hasn't kept pace with consumer demand. In these cases, home buyers are forced to rely on less reliable sources of information, home sellers accept offers below real market value, agents work longer for reduced commissions, and whole markets remain undervalued. We recognize the potential impact the IRA's rebate programs and tax incentives can have to drive uptake of energy efficiency and support engagement with states' local real estate community on a Market Transformation Plan. Our recommendations are as follows.

First, we recommend that program administrators identify who the key players are in their market within the MLS and REALTOR association. We strongly believe that programs should work directly with their local MLS(s) and not rely solely on REALTOR association engagement as a proxy. If data fields need to be added or a data integration of some type is advised, the MLS representatives will be best placed to get this work done. MLSs appreciate and want diverse, credible data, whether that data comes from the agent, contractor, aggregator, certification firm, program administrator, or other. Ideally this data is delivered to the agent or MLS in alignment with current RESO data fields.

States may also consider setting aside a pool of funding to support MLSs which need to make upgrades to their systems to represent the types of improvements incentivized through the IRA. Typically, the local MLS has contracted with a large data provider for the data feed, and any changes to the system will require a financial investment that may not be in the budget.

There are multiple resources for MLSs to use to better align their data with the home features funded through IRA. CMLS has written a [Green Data Best Practices Guide](#) for multiple listing services, which includes information on technical implementation, agent education, resources, metrics for success, and an MLS self-assessment. For MLSs which have not yet implemented green fields, this guide is the place to start. Another resource is the [Home Energy Information Guide](#) which CMLS contributed to along with NAR, the DOE and others.

Lastly, when it comes to real estate engagement and education, MLSs can be a great partner to the states for disseminating information on the rebate programs. Agents log into their MLS daily, and we can envision a pop up link to share information on IRA rebate programs and other resources with agents who can then promote these programs to their sellers and buyers.

Next Steps for a State Energy Office on Engaging with Real Estate Stakeholders

State rebate program administrators and real estate stakeholders should meet prior to the design and implementation of local IRA rebate programs so that this paper's suggestions can support the programs' success from the outset.

Steps state rebate program administrators can take to begin engagement with the real estate sector:

1. Meet with your state's NAR Governmental Affairs Director (GAD) to discuss the contents of this white paper and provide an update on the state's current plan and process for creating and launching the rebate programs. This discovery meeting is ideal to listen and learn about where the real estate market is today and what the association's concerns are.
2. Invite real estate association representation to your required public input session for your Community Benefits Plan.
3. Schedule meetings with the executives of your state and/or local REALTOR Associations. They can provide you with a more granular view into the state of agent education and their MLS's existing data fields.

4. Once programs have launched, conduct round tables or focus groups on issues related to home valuation for energy efficiency and renewables, such as valuing energy efficient homes in low-income communities and communities of color.
5. Consider sending a representative to present to local REALTOR associations on the rebate programs' outcomes after they have launched, and/or create a semi-annual report that can be shared with associations so that they understand the impact the rebate programs are having in their communities.

Conclusion

NAR's Sustainability Advisory Group is excited to share this white paper with state Government Affairs Directors who in turn may share it with an appropriate energy official from their state. We hope the provided background information and recommendations herein are useful to program designers and administrators when developing their Implementation Blueprint and Market Transformation Plan. We cannot underscore enough how important it is for us to work in partnership on achieving market transformation goals via an understanding of each other's objectives and limitations. The opportunity is there, and we believe it is best achieved through collaboration and coordination.