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## Does energy efficiency raise house values?

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*Frequently analysts are asked to know if there is a premium on energy-efficient homes since the change in asset value has an effect on undertaking a retrofit investment or the purchase of a high performing new building. This study, reported in the Washington Post by Kenneth Harney, gives some strong evidence that there is a positive effect.*

### Study finds that energy-efficient homes often command higher prices

It has been a controversial question in the home real estate market for years: Is there extra green when you buy green? Do houses with lots of energy-saving and sustainability features sell for more than houses without them? If so, by how much?

Some studies have shown that consumers' willingness to pay more for Energy Star and other green-rated homes tends to diminish during tough economic times. Others have found that green-certified houses sell for at least a modest premium over similar but less-efficient homes.

But now a new study involving an unusually large sample of 1.6 million homes sold in California between 2007 and early 2012 has documented that, **holding all other variables constant, a green certification label on a house adds an average of 9 percent to its selling value.** Researchers also found something

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The focus of this site is sustainable energy. The purpose is to share information, highlight issues, drive momentum and especially, to share thinking. I strongly encourage readers to react and to add your own ideas and perspectives. Rod Janssen, editor

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they dubbed the “Prius effect”: Buyers in areas where consumer sentiment in support of conservation is relatively high — as measured by the percentage of hybrid-auto registrations in local Zip codes — are more willing to pay premiums for green-certified houses than buyers in areas where hybrid registrations are lower.

The study found no significant correlations between local utility rates — the varying charges per kilowatt-hour of electricity in different areas — and consumers’ willingness to pay premium prices for green-labeled homes. But it did find that in warmer parts of California, especially in the Central Valley, buyers are willing to pay more for the cost savings on energy that come with a green-rated property.

The research was conducted by Matthew E. Kahn, an economics professor at UCLA, and Nils Kok of Maastricht University in the Netherlands, currently a visiting scholar at the University of California at Berkeley. From their study’s 1.6 million home transactions, Kahn and Kok identified 4,321 dwellings that sold with Energy Star, LEED or GreenPoint Rated labels. They then ran analyses to determine how much green labeling contributed to the selling price, eliminating all other factors contained in the real estate records: locational effects, school districts, crime rates, time period of sale, views and amenities such as swimming pools.

Energy Star is a rating system jointly sponsored by the Department of Energy and the Environmental Protection Agency that is widely used in new home construction. It rewards designs that sharply reduce operational costs in heating, cooling and water use, and that improve indoor air quality. The LEED certification, created by the private nonprofit U.S. Green Building Council, focuses on what it calls “sustainable building and development practices.” Though more commonly seen in commercial development, it is also available as a rating for single-family homes. The GreenPoint Rated designation, created by a nonprofit group called Build It Green, is similar to LEED and can be used on newly constructed as well as existing homes.

The 9 percent average price premium for green-rated homes is roughly in line with studies conducted in Europe, where energy-efficiency labeling on new and resale houses is far more commonplace. Houses rated “A” under the European Union’s

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system commanded a 10 percent average premium in one study, while dwellings with poor ratings sold at discount.

Labeling in the United States is a politically sensitive real estate issue. The National Association of Realtors has lobbied Congress and federal agencies to thwart adoption of any form of mandatory labeling of existing houses, arguing that an abrupt move to adopt such a system could have severely negative effects. A loss of value at resale because of labeling would be disastrous, the association has argued, particularly coming out of a housing downturn in which owners across the country have lost trillions of dollars of equity since 2006.

The National Association of Home Builders, on the other hand, has enthusiastically embraced labeling as a selling advantage for new houses. Buyers of such homes today are far more likely than purchasers of resale homes to find them rated as energy-efficient and environmentally friendly.

But there can be an environmental downside to new homes as well: Many are located in subdivisions on the periphery of metropolitan areas, leading to higher fuel expenditures — and more air pollution — because homeowners have longer commutes to work. Kahn and Kok make no secret about where they stand on labeling: More disclosure on the green characteristics of homes makes sense — and a lot of savings on energy consumption — for buyers and sellers.

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