

Lower utility bills raise market values of homes

Last month, the state of California reported that in response to blackouts and high utility bills, three million state residents and businesses had cut their power usage by 20 percent this summer compared with a year ago, qualifying them for a 20 percent rebate on their electric bills. Residents reportedly qualified for rebates totaling nearly \$30 million.

While California officials justifiably crowed over the successful power reduction, they failed to mention what could be the biggest financial benefit of energy conservation. According to a 1998 study done for the United States Environmental Protection Agency's Energy Star program, the market value of a home increases by as much as \$20, for every dollar reduction in the annual utility bill through efficiency and conservation, assuming an after-tax mortgage interest rate of about 5 percent.

By slashing their electric bills by nearly \$30 million, those energy-conscious California households may have added hundreds of millions of dollars to the total market value of their homes.

To be sure, without knowing if those reductions are permanent, it is impossible to say exactly how much market value has been added. It is one thing to respond to a crisis by temporarily changing behavior, and quite another to permanently lower energy usage by investing in energy-efficient appliances and home weatherization. That value has been added, however, is clear, and experts say it is only a matter of time before a majority of Americans begin to realize that permanently saving energy is as beneficial for individual net worth as it is for the environment.

Rescuing Boomers

Experts note that as the stock market has faltered over the last two years, millions of aging baby boomers have grown increasingly worried about financing their retirement. At the same time, the United States economy has barely avoided recession because consumer spending has held up, due in no small part, to Americans borrowing more against the value of their homes. In short, at a time when home ownership appears to be resuming its traditional role as the best way to create wealth and add to disposable income, energy efficiency is starting to look like a relatively simple, low-risk way to do both.

"Anything that permanently lowers the cost of operating a house will enhance its value by roughly 20 times at today's interest rates," says David K. Resler, chief economist and managing director at Nomura Securities International, Inc. in New York. Noting that increased energy efficiency, along with lower insurance

premiums, are probably the two easiest ways to cut a house's operating costs, Mr. Resler states, "Investment in energy efficiency pays off."

The same basic conclusion was reached by the 1998 EPA study conducted by ICF Consulting of Fairfax, VA, entitled, "Evidence of Rational Market Values for Home Energy Efficiency." The ICF study, which is supported by earlier, albeit more limited research, is based in part on an extensive statistical analysis of American Housing Survey (AHS) data for the first half of the 1990's. It found that a homebuyer generally seems willing to pay more for an energy efficient home, provided the expected fuel savings are greater than the after-tax mortgage interest rate. This was true whether the heat source was oil, natural gas or electricity. "When prospective homebuyers are wishing to decide whether they can cover the monthly payments on a home they wish to buy, the fuel bills appear to affect the price that buyers can afford to offer for the home," the study's principal author, Rick Nevin, explained in a recent interview.

Look for the 'Invisible'

Mr. Nevin said the financial payoff on efficiency upgrades made on a house built prior to 1980 should be greater than on newer homes because homes built since 1980 have had more energy efficiency built into them. He emphasized that the study found that buying an energy-efficient home makes sense even for short-term ownership. He further emphasized that a homebuyer must distinguish between items that likely will be taken by the seller — such as a microwave oven — and items that are a permanent part of a home, such as central air conditioning equipment, heating systems and hot water heaters. He also stressed that homebuyers look for a home's invisible efficiency in windows and insulation. Depending on what part of the country one lives in, washers, dryers, refrigerators, etc. may or may not be a permanent part of a home. The distinction can be important. A recent study by the U.S. Department of Energy showed that when consumers switched to a combination of a front-loading clothes washer, a water and energy-efficient dishwasher, and an energy-efficient clothes dryer, they saw a 37 percent reduction in electricity, along with a 38 percent reduction in water consumption. Mr. Nevin said that for those wishing to make the home they currently live in more energy efficient, it is probably most cost effective to do so as part of a broader home improvement program. "Almost any house can economically cut its energy use by 30 percent," said Mr. Nevin.

Overwhelming Consumer Interest

Based on the results of the ICF study, homeowners will have to spend \$2,000 to \$4,000 on new, super energy-efficient appliances—those that carry the EPA’s Energy Star label signifying that that appliance is roughly 10 percent to 30 percent or more efficient than models meeting minimum federal standards—to realize an \$8,400 increase in market value.

While \$2,000 to \$4,000 is a sizable investment for most people to make, the ICF study found that a homeowner can finance improvements and appliances, and the month-to-month finance charges will be more than offset by lower utility bills while the market value of the home instantly goes up.

To test consumer attitudes toward spending that kind of money on energy-efficient appliances and improvements, the Smart Energy Management series of special advertising supplements asked the Portland, Oregon-based consulting firm of Bardsley & Neidhart to conduct a nationwide poll. A telephone poll of approximately 400 Americans from all regions of the country was conducted during the first week of August.

The poll found that 83 percent of Americans say they would buy an Energy Star-rated appliance when their present appliance needed replacement if it meant that the market value of their home would go up. Another 8 percent said that they would buy an Energy Star appliance even before their present appliance needed replacing. Only 5 percent said they wouldn’t consider buying an Energy Star appliance under any circumstances. “The poll shows there is tremendous interest in the financial rewards of being energy efficient in the home,” says Charleen Heidt, the Bardsley & Neidhart vice president who oversaw the poll.

Interest Yes, Awareness No

The poll numbers suggest that, as Paul Mehta, an energy efficiency expert and chairman of Bradley University’s mechanical engineering department, says, energy means utility bills. “When bills rise 200 percent and 300 percent like they did last winter, people pay attention.”

While these numbers imply there will soon be a run on Energy Star-rated home appliances in department stores across America, the problem remains that most Americans are unfamiliar with the Energy Star program. So even though nine out of 10 people polled by Bardsley & Neidhart expressed interest in buying Energy Star-rated appliances, in most cases, the person asking the questions first had to explain what the Energy Star program is. The poll found that three out of four Americans have never heard of Energy Star, something the Bush administration hopes to change

when it kicks off an Energy Star advertising campaign later this fall.

Appraisal Problems

Another obstacle standing in the way of widespread adoption of energy-efficient appliances by a majority of Americans is the fact many home appraisers don’t consider energy-efficiency improvements in their final calculations. Appraisers reportedly don’t think they have sufficient standards to evaluate whatever increased value a house gains from energy efficiency.

Still, according to Mr. Nevin of ICF, an appraisal that doesn’t factor in energy efficiency “is almost never an obstacle” in a home sale because buyers and sellers generally factor in efficiency by looking at monthly utility bills. Such appraisals, however, are a problem when a homeowner seeks a mortgage refinancing or home equity loan. “Although Fannie Mae and Freddie Mac have energy-efficient loan programs that are supposed to address this problem, most homeowners—and most mortgage bankers for that matter — don’t know about these programs, and lenders that do know about them hate the extra paperwork,” says Mr. Nevin.

“It would be much easier for people to upgrade their existing homes, without worrying about their loan-to-value ratio and mortgage insurance issues, if appraisers and lenders just recognized that certain energy-efficient upgrades increase home value by more than the upgrade cost,” says Mr. Nevin.

Appraising the energy efficiency value of a house could get easier before long. CertainTeed Corp., the building products firm, has a program designed for homebuilders that gives the buyer of a new house that has been custom-built for energy efficiency a written warranty on its energy usage. An independent engineering company tests each new “Certified Plus” home to ensure that it will use 30 percent less energy than a standard built home. The tests, which could be conducted on any existing home, include infrared scanning and calibrated airflow measurement. To meet that 30 percent saving goal, a Certified Plus home comes with such energy-saving features as dual-glaze windows, full weather stripping on all exterior doors and a 50-gallon gas-fueled water heater with automatic setback thermostat.

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