

Energy efficient homes attract premium sale and rental prices, study finds

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A new study has found people are willing to pay a premium for energy efficient homes, prompting calls for a mandatory energy efficiency rating (EER) disclosure system to be rolled out Australia-wide.

University of Melbourne property lecturer Dr Georgia Warren-Myers and University of Cambridge visiting fellow Dr Franz Fuerst analysed tens of thousands of property transactions over five years, from 2011 – 2016, in Australia's Capital Territory, where mandatory disclosure has been in place since the late 1990s.

Their research found EERs carry weight with buyers and renters, providing a clear market signal for builders and owners to install more [energy](#) efficient systems, potentially reducing carbon emissions associated with housing.

"The data shows people are valuing [energy efficiency](#) and making decisions based on the energy efficiency portrayed in these ratings," said Dr Warren-Myers.

"It has become one of the factors that people consider when they're looking. They see the number of bedrooms, the number of bathrooms, carparks, and they see the energy star rating."

The ACT is the only Australian State or Territory to introduce mandatory rating disclosure for all dwellings, while nationally only new dwellings need a rating – a minimum six-star rating out of a possible 10.

Generally, the researchers found sale price premiums associated with different star ratings. Compared with three-star properties, properties rated five and six attracted premiums of 2 and 2.4 per cent respectively. But properties that went further on energy efficiency to gain a seven-star rating attracted heftier premiums of up to 9.4 per cent.

"Home owners know that new homes meet a minimum six-star level, and they want to be better than the standard," said Dr Warren-Myers.

"They're going to that seven-star mark to differentiate themselves from that baseline."

In the rental market, five and six-star properties rented at a 3.5 and 3.6 per cent premium respectively compared to three-star properties.

However, the gains flattened at seven and eight stars with premiums of 2.6 per cent and 3.5 per cent respectively. Yet when the non-disclosure is taken into account, these premiums rise substantially.

Dr Warren-Myers argues that a mandatory disclosure program Australia-wide would drive broader energy efficiency in existing properties, particularly in the rental market where landlords lack incentives.

"By providing a mandatory disclosure program Australia wide, decision-making by owners, occupiers and landlords will drive more energy efficient dwellings, potentially reducing carbon emissions associated with housing," said Dr Warren-Myers.

"For tenants, who have limited capacity to make changes to a property, not knowing the energy rating means they can effectively be penalised, from the perspective of household bills. They may also end up still paying a standard rental price for a property that doesn't actually perform.

"However, our research demonstrates there is potential that the initial outlay to increase the energy [efficiency](#) could be offset through the additional premiums in rental income and resale value."

More information: Franz Fuerst et al. Does Voluntary Disclosure Create a Green Lemon Problem? Energy-Efficiency Ratings and House Prices, *Energy Economics* (2018). [DOI: 10.1016/j.eneco.2018.04.041](https://doi.org/10.1016/j.eneco.2018.04.041)

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