

Energy efficiency labeling for homes has little effect on purchase price

October 31 2017



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Most buyers aren't thinking about energy performance certification when they're house shopping. That's the conclusion of a team of researchers from the Norwegian University of Science and Technology (NTNU) after they conducted a thorough assessment of how the labels affected home pricing.

"Energy labeling has zero effect on the price. The scheme doesn't seem to be achieving its intended purpose," says Professor Olaf Olaussen at the NTNU Business School.

The Norwegian energy labeling system for homes and dwellings was implemented in 2010. One of the arguments for the system was that a good energy performance rating would be an advantage for the seller as well.

Energy performance is rated from A to G. It's intended as a tip for buyers so that they know just how much energy a home requires. With energy-efficient housing, you can save a lot of money over the years and thus, you may be willing to pay more for the property. The EU uses the same system.

But most buyers don't give a hoot.

Other studies showed a benefit

"We found that some European studies, especially a Dutch one, showed that the energy labeling made a big difference to the price, but it seemed strange," says Olaussen.

These studies had weaknesses. They only showed the impact after energy labeling was introduced, not before, and usually only relied on data from a single year.

Olaussen and his colleagues Are Oust and Jan Tore Solstad believed that a price premium might be due to something other than a high energy performance rating. They set out to test this.

In Norway, energy labeling was not implemented gradually. It was launched in full in July 2010. Norwegian data on the prices of most

home sales are easy to access. This makes it relatively easy - albeit time consuming - to compare price developments both before and after energy labelling was introduced.

The Norwegian researchers did find an apparent effect of the energy labeling system when they used the same method as the Dutch study. But this effect disappeared when they used a more thorough procedure.

Same advantage before and after

Instead, the researchers took the home sales figures from 2000 to July 2010 and from July 2010 to 2014, which gave a picture of how [prices](#) for houses developed over the long term. They also compared houses with similar characteristics, such as homes in the same area and of the same type.

"We found that the homes that had a price premium after energy labeling was introduced had that advantage before it, too," says Olaussen.

The advantage had to come from something else. Perhaps, homes with better energy performance were generally of higher quality. Or maybe something else was a factor.

What may be more important than whether your home has an energy rating of A or G is whether it is in a child-friendly area, or near shops, or has ocean views or other things that buyers are willing to pay a premium for.

Quick bidding rounds may play a role

"I don't think most people care about the energy rating when they buy a

home. Other factors play a role, especially in a market like ours [in Norway], with fast bidding rounds. Then you're not thinking about whether 'this property has an A-rating and I can afford a little more'," says Olaussen.

Simply stated, Norway's home sales system works like this: potential buyers go to a house showing, and sign a list with their names and mobile phone numbers if they are interested in participating in the bidding for the house. Once the bidding process begins, it can be fast and furious, especially if there are many bidders eager to buy a single property.

This kind of bidding on housing isn't common in very many other countries. You find it mostly in Norway, Sweden, Australia, New Zealand and to some extent in Scotland and Ireland.

In other countries, you usually work from a fixed price, with a little bit of wiggle room. You often have much more time when buying. Maybe energy labelling would have greater significance in that scenario. But new studies from Europe aren't indicating that. They match the results from NTNU.

Researchers at the NTNU Business School are now studying whether variations in the price of electricity affect how the energy rating impacts house sales.

Measures that may work

But if the energy label doesn't matter for sales, how are you going to get people to make their homes more energy efficient?

"You can require energy labeling for [home sales](#). You can give other financial benefits for upgrading homes. You can actively use available support schemes and create different incentives," says Olaussen.

Norwegians can apply for financial support from a government funded entity called Enova if they want to make their home more [energy](#) efficient.

And you can still upgrade your home for other reasons, such as a desire to be more environmentally friendly or to save electricity. But you definitely don't want to invest your money here if you simply want to sell your [home](#) for a higher price.

More information: Jon Olaf Olaussen et al, Energy performance certificates – Informing the informed or the indifferent?, *Energy Policy* (2017). [DOI: 10.1016/j.enpol.2017.09.029](https://doi.org/10.1016/j.enpol.2017.09.029)

Provided by Norwegian University of Science and Technology

Citation: Energy efficiency labeling for homes has little effect on purchase price (2017, October 31) retrieved 16 April 2024 from <https://phys.org/news/2017-10-energy-efficiency-homes-effect-price.html>

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