The Value of Green Labels in the California Housing Market

Published on **7 Aug 2012** | Written by **Nils Kok** | Posted in **LEED**

Photo credit: Zeck Butler Architects

When shopping for a new car, one of the most prominent features on display is the miles-per-gallon (MPG) usage of the vehicle. There is an EnergyGuide label for dishwashers, clothes washers and other appliances, and an Energy Star label for the most efficient appliances. But when buying a home, there is usually no information on its energy efficiency — which is strange, considering the substantial impact that monthly expenditures on electricity, gas and water have on disposable income. For many people, energy is the single largest monthly expense after mortgage or rental payments.

The recent surge in the labeling of more efficient, "green" homes should therefore be good news for people who want to make a more informed decision when purchasing a new home. In Europe, an energy label for homes has been in place for some years now, providing prospective homebuyers with a simple assessment on the energy efficiency of a dwelling. Consumers seem to value this type of information: a large-scale study on the effect of energy labels on the selling prices of homes in the Netherlands shows a price premium for more efficient homes.

Now there is comparable evidence for the U.S.

In a study released last week, Matthew Kahn and I look at sales transactions of 1.6 million homes in California to investigate the price implications of three "green" labels: LEED for Homes, Energy Star and GreenPoint Rated. We find statistical evidence that, holding other factors constant, a green label on a single-family home in California provides a market premium of 9 percent compared to a similar home without the label. It is important to note that this premium is just an average, and there is some variation in the estimate. In addition, we find that the price premium is influenced by local climate — a green home is worth more in hotter areas where cooling is more important, and thus energy efficiency is more valuable. We also find that environmental ideology influences the willingness to pay for green homes. In areas with more hybrid vehicle registrations (which presumably reflects a higher degree of environmental consciousness), the premium paid for a green home is higher.

The bottom line: Green labels, or the characteristics these labels reflect (energy savings, water savings, higher comfort, etc.) are valued by homebuyers.

This finding is comparable to evidence on the financial implications of LEED and Energy Star labels as documented for the commercial sector, and it provides important information for developers who still wonder about the marketability of more efficient homes. A question that remains is whether displaying information on non-efficient homes could further consumers' understanding of the energy efficiency of their (prospective) homes, thereby reducing the information asymmetry that is currently present in the residential housing market. But for now, green labels seem to do a good job in informing the market. For consumers who upgrade their home, getting a label might not be a bad idea!

Nils Kok

USGBC Articles can be accessed in the USGBC app for iOS or Android on your iPhone, iPad or Android device.

1 comment

Leave a comment

Paul Suckow
Senior Planner, Harris County

3 years 3 weeks ago

We're all familiar with Energy Star labeling, and most of us know LEED for Homes for new construction and are getting familiar with GreenPoint Rated for rehabilitation. Did this or a similar study include the National Association of Homebuilder's equivalents (NGBS, etc.)?

Leave a comment

Don't have an account? Create one

You must be signed in to leave a comment.

Email

Password

SIGN IN

Address
2101 L Street NW
Suite 500
Washington, DC 20037

Within the United States:
1-800-795-1747

Outside the United States:
1-202-742-3792

© 2012-2015 U.S. Green Building Council