JLC Report

Big Builders Push for Energy-Efficiency Initiative

To say that new-home sales have been slow lately is to put it mildly. According to Census Bureau figures, only 322,000 new homes found buyers in 2010. That's less than a third of the total for 2006, and the lowest overall since 1967.

But an unlikely coalition of big builders and environmental organizations has come up with a way to stimulate sales by making energy-efficient new housing more attractive to cost-conscious buyers. Their plan centers around a proposed piece of federal legislation called the SAVE Act (the name is a contraction of Sensible Accounting to Value Energy), which is designed to address a fundamental imbalance in the way federal mortgage programs appraise the value of new homes. The legislation will be presented to Congress sometime this spring under the sponsorship of Senator Michael Bennett of Colorado.

Granite countertops vs. utility bills. The amount a buyer can borrow for a new home is determined in large part by its expected resale value. In general, the more value-added features a home has, the higher its perceived resale value and the larger the mortgage.

Under the current mortgage-appraisal rules, however, that formula doesn't apply to extra-cost options designed to save energy. A buyer who spends $5,000 on granite countertops or hardwood flooring can expect to be rewarded for doing so. But the buyer who spends that same amount on upgraded ductwork, a high-efficiency hvac system, or thicker subslab insulation has done little to increase his or her home's value. An energy-conscious buyer's only reward is a reduction in utility bills.

So why bother? The reluctance of mainstream buyers to spend money on energy efficiency has been well-documented in home-buyer surveys conducted by organizations like the NAHB. Some energy-efficiency advocates might have you believe that this is because too many home buyers are short-sighted knuckleheads. But in fact, since resale value often trumps operating cost — especially for buyers who don't expect to remain in their home for more than a few years — these consumers are behaving perfectly rationally.

Under SAVE, mortgage underwriters would be required to treat home-buyer expenditures on energy upgrades the same way they treat any other value-added feature. According to Ken Gear, executive director of the Leading Builders of America (LBA) — which represents major production builders — that change could have a huge impact on builders and buyers alike.

"The system we have now doesn't make sense," he says. "Banks consider your property taxes and insurance before they issue a mortgage, because those are costs that affect your ability to make your monthly payments. But they don't consider energy costs, which are higher than either of those." Ironically, he notes, energy costs do receive consideration when a borrower is in trouble and seeks to negotiate a new repayment plan. "In that case the bank will add it to other monthly costs to decide what the buyer can afford. That's just backwards."

If energy upgrades were assigned an appropriate value, Gear maintains, buyers would be able to qualify for the larger mortgages needed to pay up-front costs while saving enough on energy bills to make the whole thing a wash in terms of monthly out-of-pocket costs.

Strange bedfellows. LBA's membership consists of 18 of the country's largest home builders, which collectively accounted for about 30 percent of all new homes sold last year. Joining the LBA in the drafting of the bill were several prominent environmental organizations, including the Natural Resources Defense Council and the Alliance to Save Energy. Given the long history of conflict between these two sectors — large-scale builders and environmentalists — the partnership has struck many industry observers as unusual. In fact, though, both sides could see significant benefits if the SAVE Act becomes law. Builders might see an uptick in sales. And environmentalists and energy-efficiency advocates see the legislation as a way to correct an unforeseen side effect of their largely successful campaign for ever-more-stringent energy codes.

That campaign culminated in the October 2010 adoption of the 2012 International Energy Conservation Code. Billed by its advocates as the "Thirty Percent Solution" for its energy savings relative to the widely used 2006 code, the 2012 IECC will impose a host of new requirements on residential builders, including tighter thermal envelopes, more efficient windows and insulation, and hvac-system upgrades. Only recently, however, did the backers of such measures begin to ask who would build

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the promised energy-efficient new homes if potential buyers preferred energy-guzzling — but attractively priced — existing homes. "They've basically won the war in terms of energy codes," says one industry insider, speaking of the efficiency advocates. "But if they want to upgrade the housing stock, they can't do it on their own. They need the builders to do that."

Raters and Realtors. In its current form, SAVE would charge the Department of Housing and Urban Development (HUD) and the Department of Energy (DOE) with identifying a system for rating the new-home energy efficiency. Should they fail to do so within the one-year window between the act's passage and its effective date, the Home Energy Rating System of the nonprofit Residential Energy Services Network (RESNET) — familiar to many builders for its certification of home performance under the Energy Star and Building America programs — would fill that role by default. In either case, professional energy raters would be glad to take on the extra work. "We have 60 training institutions for new raters," says RESNET executive director Steve Baden. "We'll be able to meet any new demand."

The real estate community is less enthusiastic about SAVE. It has typically resisted anything resembling a home energy-labeling system for fear that it would make less-efficient homes more difficult to sell.

The race is on. The big question on everybody's mind is this: Will the SAVE act find a ready reception in Washington, or will it sink without a ripple? There's no way to know yet for sure — passage could take a year or more — but the legislation has several points in its favor. In addition to its broad support among both builders and environmentalists, it requires no significant new spending and it can be portrayed by its supporters as a market-driven reform rather than a government mandate.

Already, several major production builders are moving to strengthen their own energy-efficiency credentials, perhaps in an effort to hit the ground running should the bill become law. KB Home, for example, now builds Energy Star homes exclusively, and recently began providing potential buyers with a prepurchase estimate of a home's monthly gas and electric bills. The Michigan-based Pulte Group — the corporate parent of Pulte, Centex, and Del Webb homes — has announced a similar cost-estimate program, which it compares to the miles-per-gallon ratings for new cars. Both company's programs are certified by RESNET.

"Last year, 40 percent of all new homes were rated by RESNET raters," says Baden. "Once big builders turn their marketing power loose on this, our hope is that consumers will start asking 'what is the HERS rating of this house?' about every house, no matter who the builder is." *— Jon Vara*

Remodeling Beginning to Rebound, Report Finds

Remodelers pummeled by the economic downturn have reason for cautious optimism, according to a recent report from Harvard University's Joint Center for Housing Studies. After a bleak five years when payroll and consumer spending fell by 25 percent from their mid-decade peak — and the industry contracted at an annual rate of 1.4 percent — the next half-decade should bring respectable overall economic growth of about 3.5 percent per year, say the study's authors. Among the report's highlights:

- Homeowner mobility has been declining for more than two decades, with the 2008 household move rate of 11.9 percent the lowest recorded since the Census Bureau began tracking it in 1948. A low move rate has traditionally been seen as bad for business, since remodeling activity is largely driven by new buyers making changes to existing homes. But the tendency of owners whose homes have fallen in value to stay put may be giving rise to new business opportunities, as they dig in for the long haul and invest in improvements they might not otherwise have considered, such as energy-efficiency rehabs and adaptive "aging in place" retrofits.
- A growing percentage of homeowners who do move will find themselves in distressed or foreclosed homes. According to the report, the new owners of such properties spend an average of 15 percent more than new owners of nondistressed properties. "As these properties work their way through the foreclosure pipeline," the authors predict, "home improvement expenditures will increase."
- Although the remodeling industry has long been dominated by very small businesses — figures from 2007, for example, show that two-thirds of the 650,000 remodeling companies nationwide had no full-time employees — the recession has likely chipped away at that figure to the benefit of larger firms. The authors report that while high demand encouraged small players to enter the market during boom years, the subsequent hard times have driven many of them out of business. "This has opened up opportunities for larger and more stable remodeling firms to capture a larger share of spending as the market recovers," the report says.

A pdf of the full report, "A New Decade of Growth for Remodeling," can be downloaded at the Joint Center's website; go to the publications page at www.jchs.harvard.edu/publications. *— J.V.*

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■ There's good news and bad news about San Francisco's adoption of low-flow toilets. According to a recent story in the *San Francisco Chronicle*, the move has reduced the city's annual water use by about 20 million gallons — but at a cost: It's led to a buildup of sludge in sewer pipes that's reportedly resulted in foul odors outdoors in several parts of the city, particularly during warm summer weather. A $100 million five-year upgrade of the sewer system has not solved the problem, and the city's public utilities commission is now planning to begin adding sodium hypochlorite — the active ingredient in household bleach — to the waste stream in an effort to control odor-causing bacteria.

■ Hayward, Calif., is considering joining a handful of other U.S. cities — including nearby Berkeley and San Francisco — in adopting a residential energy conservation ordinance (or RECO), reports the *Oakland Tribune.* The ordinance would require that homeowners perform energy-saving improvements when selling a property. Although the upgrades would be subsidized by rebates from the city and regional utility Pacific Gas & Electric, the plan has encountered strong resistance from area real estate agents, one of whom called it "the final nail in the coffin for the Hayward market."

■ A little-known phenomenon called "natural gas odor fade" is being blamed for at least six explosions and fires — which have resulted in several deaths and dozens of injuries — over the past decade. According to *Reeves Journal,* the condition stems from the tendency of new gas lines to absorb the chemical odorant added to natural gas by utility companies. (Utility-company supply lines are "pickled" with the odorant before installation to prevent them from absorbing any more of it.) Plumbers who purge newly installed gas lines by opening a valve and waiting for the smell of gas may release deadly levels of gas in an enclosed space. The *Journal* urges residential and commercial plumbers to use methane or combustible-gas detectors when purging new lines. "Don't trust your nose, no matter how educated," cautioned one gas expert quoted in the article.

■ A legal challenge to Washington state's new energy code has been rejected by a federal court in Tacoma. The lawsuit had been filed last May by the Building Industry Association of Washington, which claimed that the recently adopted state code — which mandated a 15 percent reduction in energy consumption for new homes — unlawfully required builders to install more-efficient hvac equipment than required by federal standards. In dismissing the case, the judge noted that the use of efficient products was not a requirement, because the code offers other methods for reducing energy use to the required level.

■ The Better Business Bureau has taken paint manufacturer Sherwin-Williams to task for billing its Harmony line of paints as "zero-VOC." The watchdog group found that even though the untinted base paint does meet the zero-VOC threshold, the addition of VOC-containing colorants significantly increases overall levels of the compounds (see "How Green Are Low-VOC Paints?," *JLC Report,* 4/10). *Environmental Building News* reports that while Sherwin-Williams has disputed the validity of the claim, it has agreed to "take the ... findings into consideration in its future advertising for Harmony." The complaint about the company's ads had been brought to the attention of the BBB by competitor Benjamin Moore, which markets its own line of zero-VOC paints.

■ Under a law that took effect at the beginning of this year, Colorado builders must offer home buyers a range of water-saving options in all new homes, including low-water-use plumbing fixtures, appliances, and landscaping. The so-called Water Smart Homes Act is not a code change and does not require that buyers actually select any of the extra options, which could add anywhere from $2,000 to $5,000 to the cost of a home. According to its supporters, the new law has the potential to save approximately 2 billion gallons of water per year by 2050.