

By Amanda Reid, Senior Researcher, BERL

Green mortgages

Building Research Levy-funded research into the role of banks in helping homeowners build high-performing homes found we lack a consistent measure for valuers, and banks have no incentive to offer preferential rates.

IN NEW ZEALAND, many houses have been built to historical building standards, and these require significant amounts of energy to maintain a healthy indoor environment. As the country has developed, the New Zealand Building Code has been updated to reflect achievable standards for construction. These are often used as a target rather than a minimum, and houses built under old standards are not often improved to newer standards.

High-performance homes, designed and built beyond the standards set out in the Building Code, include a range of integrated design and construction features aimed at achieving greater energy efficiency, water efficiency, thermal performance and resilience. Homes with integrated features are considered warmer, drier and more comfortable, and improved energy efficiency results in direct savings in the costs of energy.

Globally, banks back high-performance homes

Building high-performance homes and retrofitting energy, thermal or water efficiency improvements in existing houses can be an expensive process, often requiring bank credit. Because of this relationship, inserting financial incentives into loans to improve the performance features in homes has been considered around the world as a solution to these challenges.

Increasingly, banks globally are offering incentives to build high-performance homes. The World Green Building Council defines a green mortgage as lending where borrowers are offered preferential



terms if they can demonstrate that the property for which they are borrowing meets certain environmental standards. The terms can include reduced borrowing costs or access to larger amounts of credit.

In the UK, 2006 Building Regulation changes incorporated the Europe-wide energy performance certificates (EPC) that rate houses from A (most efficient) to G (least efficient). Many property developers and home builders responded by increasing the energy efficiency of new homes. The energy literacy of homebuyers improved, demand for houses with higher ratings soared and many UK banks now offer green mortgages for homes built to EPC A/B ratings.

The World Green Building Council's Europe network and their partners in the Energy Efficient Mortgages Initiative are also creating mortgage products to incentivise borrowers. These incentives include increased loan amounts and reduced interest rates for homeowners who build or buy energy-efficient houses.

Only one bank offering green mortgages here

In New Zealand, green mortgages can be considered as improved lending conditions for houses meeting specified performance standards. Currently, only one bank in New Zealand offers a green mortgage product for new-build properties or renovations that meet Homestar 6 or higher.

The number of high-performance homes being built here has not yet reached a critical mass, and such homes are still a niche market.

BERL looked at the role of banks in lifting building standards

Business and Economic Research Limited (BERL) undertook research as part of BRANZ's 'Exceeding the minimum' programme. This sought to understand the role of the banking sector in New Zealand in lifting the standard of residential buildings and encouraging consumers to design and build high-performance homes.

The aim of the research was to identify the opportunities for banks to consider integrated features in home loan applications and consider financial incentives such as green mortgages that may be used.

As part of the research, BERL spoke to financial institutions and advisors, valuation experts and insurance experts.

Banks, insurance and valuers don't record above-Code features

In the first round of stakeholder engagement, a key finding was that the banking, insurance or valuation sectors are not recording integrated features in any systematic way. In addition, banks are generally not recording such features in home loan applications, as they assume they will be reflected in valuations.

However, the valuation sector currently has no mechanism for effectively recording building features that exceed minimum standards. They may be noted in reports, but the information is not added to specific fields in databases. Property valuers are unable to inspect structural features so are also limited in what features they can note in these reports.

This makes it difficult for banks to look at providing green mortgages without an external measure, such as Homestar or Passive House Standards, that either a developer or a home builder, buyer or owner needs to pay to have assessed. Stakeholders consider that market awareness of integrated features and external measures is

low and market demand for high-performance homes is minimal.

Valuers could collect extra data, but this may not change valuations

The findings from the first stage highlighted the role of valuation and the challenge of accounting for integrated features or high-performance home characteristics in valuations. This prompted a second round of stakeholder engagement.

This round included a discussion with a select group of key stakeholders to better understand whether there is value and interest in improving the valuation system and, if so, how.

Valuers indicated it was possible to have an open text field to capture extra data, such as whether a home had a particular Homestar rating or met Passive House Standards. However, this wouldn't necessarily translate into accounting for these in house valuations.

Value of added features not understood

The discussion turned from how and where to capture data about high-performance homes to how to educate the market about the value of these features.

Single consistent measure would help

Stakeholders indicated that having a single consistent benchmark or measure that was defined and mandated by legislation, particularly around energy efficiency, would create some clarity for them and for homebuyers.

This measure would have shared understanding of the costs of running a particular home and could allow for targeted education of the market in the same way as promotion of effective insulation. As a result, any integrated features that contributed to energy efficiency would also contribute to their value in the market through increasing consumer demand.

Regulation needed to drive change

This is in effect what has happened overseas, where regulation giving clear criteria for energy-efficient homes has been the driver for changes in consumer behaviour, an improvement in home quality and an increase in green mortgage provision by banks.

This supports additional findings from the interviews where it was clear that the majority of home loan providers would offer financial incentives:

- if incentivised or subsidised by government
- if improved energy efficiency contributed to their own criteria for loan approval, such as increased serviceability or decreased default risk. ◀

For more ▶ See Research Report ER 43, available at www.branz.co.nz/study_reports.