

Monetizing Building Sustainability

HOMEOWNERS VALUE GUIDE

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The purchase of a home is one of the largest investments most people make in their lifetime.

There is plenty of financial information available for comparing buying-to-renting, but only a limited amount of information exists to help buyers determine the **true cost of home ownership**. Yet, a typical home built to a minimum code standard can cost over \$1,200,000 in total home ownership cost over 60-years. By comparison, a sustainable home₁ can be built today at closer to \$700,000 in ownership cost. That's a significant cost saving of \$500,000; or over \$600 per month!

Unfortunately, home builders and realtors typically encourage buyers to focus their attention on the floor plan, aesthetic features, and the initial cost. While some will discuss energy efficiency and cite short-term investment results, they rarely engage in a discussion about how much the home is going to cost over its useful life span. Home builders and realtors argue that home buyers never ask for this type of information - but the real problem may be that this information is not readily available, nor is it well-understood by most.

Home owners stay in a home for an average of 12 years₂ before buying something new. But whether you stay in the same home for 60 years, or live in multiple homes over this same period, knowing the true cost of home ownership can save you thousands of dollars in unnecessary expenses every year. While at least two-thirds of the savings from a well-designed, sustainable home comes from energy, durable building components with lower annual service costs and longer useful life cycles can provide another area of significant savings.

The True Cost of Home Ownership

The initial purchase price of a home (new or used) is only one part of the true cost of home ownership. From the day you move in, the costs of home ownership and occupancy keep rolling in. Over the years, these costs can quickly exceed the initial purchase price of the home. Expenses like:

- Mortgage interest
- Property taxes
- Property insurance
- Utility costs
- Annual service and maintenance
- Repair and replacement of aging building components

Of course, any investments the home owner makes in modernizing or renovating the home also need to be included when determining the true cost of home ownership.

So, knowing the total cost of home ownership in advance is important. By aggregating the cost savings from a 'whole building' comparison between home options, it is possible to monetize the savings into a present dollar amount. This provides the information needed to make a more informed investment decision that could save you thousands of dollars.

The financial analysis process of attaching a value to future life cycle savings is an internationally recognized accounting practice. While it is used in the building construction field, in the housing sector it has typically been limited to making a comparative analysis between energy efficiency technologies or building component options.

Predicting and labeling the future performance of equipment and technology is a common technique. Examples include: the fuel performance of cars, energy performance of appliances, and energy performance of buildings. Each of these examples is then communicated to buyers in the form of a 'rating' system.

As helpful as most of the home energy rating systems are in providing general guidance, none of them are able to assess sustainability in terms of dollars and cents. The SEEFAR-Valuation[®] fills that gap.



SEEFAR-Valuation[®] Benefits

These well-recognized standard accounting practices form the basis for the SEEFAR-Valuation[®] process, creating these benefits:

1. Predict the future cost of home ownership: When buying a home or investing in major renovations, predicting future cost is a fundamental requirement for determining investment value. The SEEFAR-Valuation[®] calculates future costs using standardized methodology, thereby making application of the results universal.

2. Define sustainability and energy efficiency in dollars and cents: Home owners have access to various energy rating systems that provide a comparative indication of efficiency. The SEEFAR-Valuation[®] supplements current rating systems by monetizing value into dollars and cents.

3. Set the basis for home appraisal value-added

amounts: The SEEFAR-Valuation® can be used in home appraisals to support the 'value-added' consideration appropriate to sustainable homes.

4. Inform designers about the comparative life cycle

cost of design options: Whether it is the design of a new home, or the modernization of an existing home, there will be many options to choose from. In cases where any of those decisions impact the future cost of home ownership, the SEEFAR-Valuation® will provide the data needed to understand the investment value of each option. This information can then be used to make informed selections that will optimize the investment value of your project.

5. Support access to mortgage financing: Mortgage lending in Canada is directly influenced by an independent home appraisal. The SEEFAR-Valuation® can be used to reinforce the 'value-added' amount used in an appraisal. It also provides important information to assist the mortgage lender in determining the debt servicing considerations. Debt servicing capacity will be used to establish the amount of mortgage financing a buyer might qualify for. When buying a sustainable home, with a monthly cost of ownership at \$500 less than a code compliant home, the SEEFAR-Valuation® will help buyers secure mortgage terms better suited to the higher value of the home.

The SEEFAR-Valuation® will help you increase value when you buy, build, or sell a sustainable home

Will Appraisers Accept the SEEFAR-Valuation®?

There are clauses within the professional appraisers' standards that shape a general 'duty of care' for appraisers. These uniform standards help to ensure that a consistent and reasonable effort is made to avoid misleading information or foreseeable harm.

It would be appropriate for the appraiser to disclose the approach used for calculating the 'value-added' benefits of a sustainable home as part of these standards. According to the Red River Group of appraisers in Manitoba, "the SEEFAR-Valuation® provides the level of professional detail needed to determine the value-added for building sustainability; making a difficult task simple and supportable".³

Will Lenders Accept the SEEFAR-Valuation®?

The SEEFAR-Valuation® effectively illustrates the financial benefits of building with sustainability and high levels of energy efficiency in mind. It confirms that there is significant long-term value in making the up-front investment in building or purchasing a sustainable home, even if that exceeds current building code standards.

In the financial services industry, verifying value is especially critical. Mortgages are calculated using strictly-defined criteria, not intuition. According to the Assiniboine Credit Union in Manitoba, "the SEEFAR-Valuation® can be used by a lender to accurately estimate the savings associated with a sustainable home.⁴ Those savings can then be incorporated into credit risk and debt servicing calculations."

When is A SEEFAR-Valuation® Most Needed?

The information produced by the SEEFAR-Valuation® will provide valuable information for homeowners when they are preparing for the following events:

- Making major home improvements
- Repairing a home
- Applying for a home equity line-of-credit
- Applying for a mortgage
- Preparing a home for sale
- Buying a home
- Designing a new home
- Building a new home



Sustainable Housing will Shape the Future

The growing trend toward sustainable housing will help homeowners cut the future costs of home ownership. As energy prices continue to rise, future home buyers will be drawn to sustainable homes with lower cost of ownership. This trend is bound to increase the demand for sustainable housing, significantly reshaping the housing market.

Since existing homes will still account for the largest share of the housing stock by 2030, homeowners who don't invest in modernizing their home to compete with sustainable housing are destined to face lower resale values.

As home buyers begin to understand the true cost of home ownership, lowest first-cost will lose its deceptive appeal

1. A sustainable home is significantly more efficient in terms of water and energy use, it minimize greenhouse gas emissions and curtails its impact on the natural environment around it. It also must effectively manage the raw material content and useful life span of its components, greatly reducing the volume of waste and recycling. While there are several types of sustainable home design approaches available, including Passive, green, high-performance, net zero and net zero-ready, these designs have plenty of design commonality. A sustainable home can be distinguished from an energy efficient home by the degree to which the home design optimizes the useful life cycle of the building materials and components, and minimizes its impact on the natural environment.

2. According to a 2011 study conducted by the American Housing Survey and published by the National Association of Home Builders, the average buyer is expected to stay in a single-family house 13 years before moving. First-time buyers tended to stay in their homes 11 years, four years fewer than buyers who previously owned a home.

3. The information contained in the SEEFAR Report provided the level of detail required to accurately calculate the "value added" by the energy efficient features of the home that I appraised. Having a comparison of the subject home's total cost of home ownership, compared to an average code compliant home, provided the solid data required to make an adjustment between the subject and other homes that have sold in the neighborhood. I could not imagine trying to quantify the value of the energy efficiencies without the information provided by the SEEFAR Report. Preston Hartwig, M.A., RFPP, Partner, Swan River Office, Red River Group

4. I believe the SEEFAR tool will be invaluable to financial institutions looking to both accurately quantify the value of home energy efficiency from a financing perspective and encourage a more rapid shift to energy efficiency in residential construction. Dennis Cunningham, Manager, Environmental Sustainability, Assiniboine Credit Union