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Research Report

The mandate to disclose energy performance lowers house prices

RWI Impact Notes

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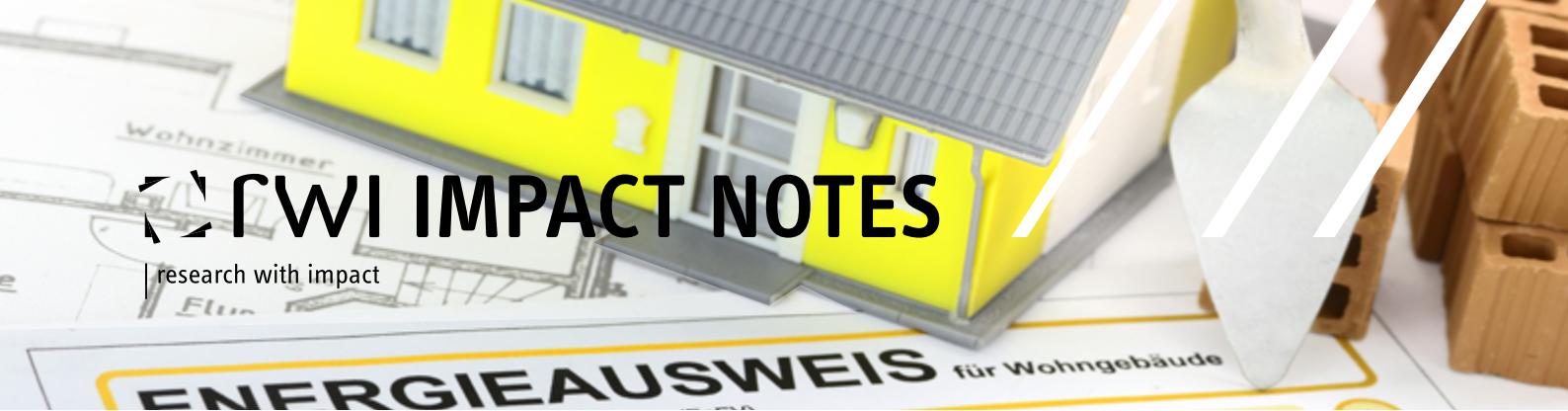
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The mandate to disclose energy performance lowers house prices

New legislation increases transparency in the real estate market and reduces the asking price of houses with high energy consumption

As of May 1, 2014, sellers on the German real estate market are obliged to disclose a house's energy consumption per square meter in their advertisements. The effect of this law has been to substantially increase the transparency of the real estate market. At the same time, the introduction of mandatory disclosure had impacts on asking prices: Houses with poor thermal quality became cheaper, with no price change seen for houses with high thermal quality. This is likely due to the fact that sellers of houses with high energy consumption typically did not include this information in their advertisement before the new regulation.

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MAIN FACTS

Since the introduction of mandatory disclosure, the share of real estate advertisements with energy information on the website Immobilienscout24 has increased from 10% to 60%.

The prices of houses with high energy consumption sank in response to this policy, while energy efficient houses saw no price change.

Prior to mandatory disclosure, the sellers of energy efficient houses tended to voluntarily include energy information in real estate advertisements. Sellers of houses with high energy consumption did not typically divulge this information.

What can be observed as result of the new mandatory disclosure regulation?

The new law led to a substantial increase in the transparency of the real estate market. Before the law's introduction, only 10% of advertisements on the website Immobilienscout24 included information on the house's heat consumption. This share rose to 60% by the end of 2014, but varies according to the type of seller: Bankers and real estate agents are more likely to comply with the law than private sellers. Conversely, private sellers were the most likely to disclose the house's energy consumption prior to the law. The RWI study further shows that the introduction of mandatory disclosure had impacts on asking prices: Houses with poor thermal quality became cheaper, with no price change seen for houses with high thermal quality.

Why is mandatory disclosure necessary?

The absence of mandatory disclosure bestows sellers with different incentives to reveal the energy consumption of their house depending on the house's thermal quality. While sellers of energy efficient houses have an interest in including energy consumption information in the real estate

advertisement, sellers of houses with high energy consumption may want to conceal this information to avoid lowering the asking price. Prior to the law, the prices of houses that disclosed the energy consumption in the advertisement were 14% higher on average than those that did not. This discrepancy partly reflects the tendency of sellers to act strategically in disclosing only good thermal qualities.

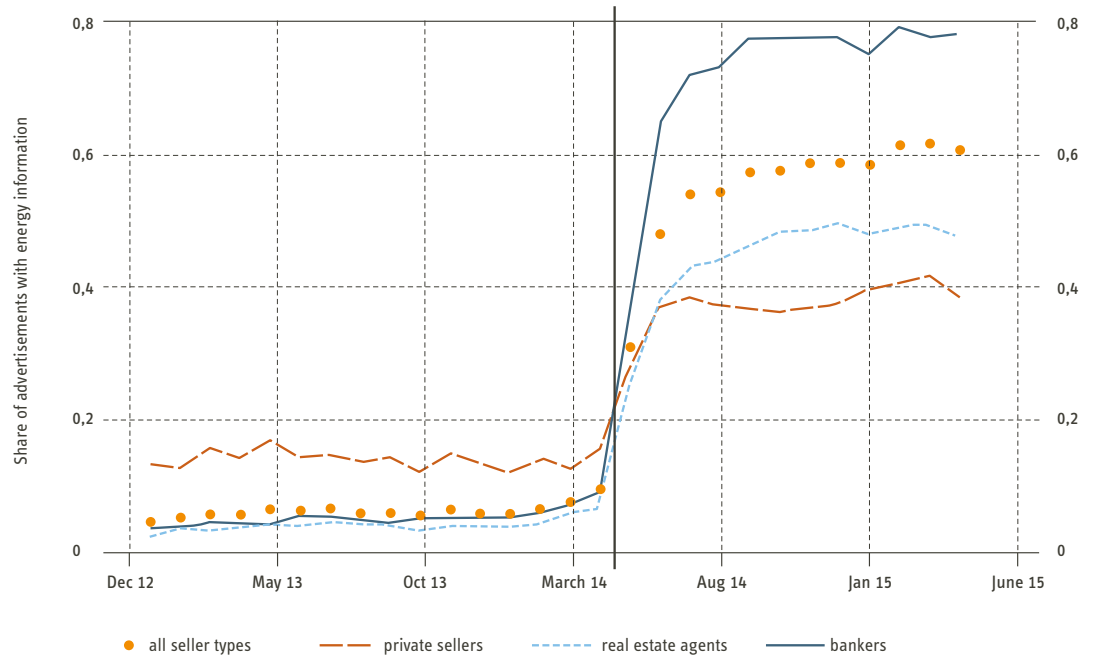
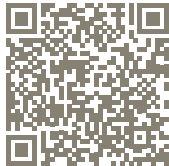
How does RWI's analysis identify the causal effect of mandatory disclosure?

The study exploits the fact that the share of those who comply with the law differs across seller types (private sellers, bankers and real estate agents). These differences are unrelated to the thermal quality of the house. Rather, they are influenced by external factors such as the loss of reputation if caught breaking the law, which will be higher for bankers and real-estate agents than private sellers. The study consequently compares the prices of similar houses across seller types before and after the introduction of the law. This makes it possible to isolate the effect of mandatory disclosure, separating it from the influence of other characteristics that influence the price.

Source:

Information of a house’s energy consumption in real estate advertisements before and after May 1, 2014

Frondel, M., Gerster, A. und C. Vance (2017), The Power of Mandatory Quality Disclosure: Evidence from the German Housing Market. Ruhr Economic Papers #684. Online: <http://www.rwi-essen.de/publikationen/ruhr-economic-papers/869/>



Source: Calculations by RWI on the basis of data by Immobilienscout24.

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Policy Recommendations

- i The obligation to include energy information in real estate advertisements should be further strengthened through closing loop holes and more stringent monitoring, among other measures. This would allow buyers to reach a more accurate estimate of a house’s value, which would in turn increase incentives to invest in energy-saving renovations.
- i Information asymmetries, which can be exploited by sellers to conceal disadvantageous characteristics that negatively bear on prices, are likely to be prevalent in other markets beyond housing. One measure to mitigate these asymmetries would be an expansion of the EU’s energy labeling scheme to cover all household appliances, which would increase market transparency for consumers.