Energy Cost Disclosure in Chicago Residential Listings: Eighteen Months Out

Chicago single family real estate listings that disclosed energy costs closed at a higher percentage of the asking price and spent less time on the market than comparable homes that did not disclose energy costs, according to an analysis by Elevate Energy. The analysis is based on the first eighteen months of data since the City of Chicago passed a modernized energy cost disclosure ordinance. The analysis builds on initial research that looked at the first seven months of available data under the same ordinance.

On July 1, 2013, the City of Chicago became the first municipality in the United States to allow direct disclosure of residential energy costs (gas and electric) when a single family or two- to four-unit home was listed for sale via a multiple listing service (MLS). In addition, an "Energy eCompliance" tool was launched to help agents in Chicago provide buyer agents and home purchasers with immediate online access to an energy cost disclosure (ECD) report for a property. Using the tool also helps agents comply with the City of Chicago energy cost disclosure ordinance. The achievement was the result of collaboration between the City of Chicago Office of the Mayor; Midwest Real Estate Data (MRED), the MLS serving Chicago; and Elevate Energy.

Elevate Energy has reviewed the first eighteen months of MRED data to provide insight into how energy cost disclosure has performed in the real estate marketplace since the ordinance went into effect. The analysis pertains only to single family homes that were listed between July 1, 2013 and December 31, 2014. Homes with two to four units listed during this time period were excluded from the analysis as were homes that were listed on auction or were listed before the updated ordinance took effect. The findings presented here describe attributes of the homes that disclosed energy costs (ECD homes) and those that did not disclose energy costs (non-ECD homes).

This analysis includes detached single family homes that stand alone, as well as attached homes such as condominiums or townhomes. In 2014, a preliminary round of analysis for the energy cost disclosure ordinance included homes that were listed during the first seven months of the ordinance. The most recent analysis builds on this earlier work to include the first eighteen months that the updated ordinance was in effect. It discusses common real estate metrics such as the ratio of sales price to original price and the length of time a listing spends on the market before it is sold. Both of these measures help track the real estate market.

The percentage of homes that disclosed energy costs increased in the months following our initial analysis. The greater sample size allowed us to uncover new findings as well as confirm the encouraging results of the first study.

Homes that Sold

Attached ECD homes sold at a higher percentage of their original list price (97.2%) than their counterparts (95.9%*). This difference translates to extra money for the seller. The average sales price in Chicago for an attached home during the analysis period was $352,000, which means an extra $4,576 for the seller who disclosed energy costs. In specific neighborhoods, the effect can be even greater. Let's consider condos and townhomes in Uptown, which ranks seventh for total listings and eighth for community areas with homes that disclosed energy costs. Attached ECD homes received

97.6% of their original list price and non-ECD attached homes only secured 94.6% of their original list price.* The mean attached home in this area sold for less than the Chicago average, at $233,800, but the increased percentage of the asking price translates to an extra $6,850 for homes that complied with the ordinance.

Elevate Energy studied not only the homes that sold, but also *whether* or not they sold. The results of the chi-square test demonstrated that more homes sold *and* disclosed energy costs than would have been expected if the two variables were not interconnected. While causation has not yet been determined, it is encouraging to see successful closing occur in cases where the energy costs were disclosed upfront, before there was a contract. This is important for two reasons. First, there is now a smooth process for home sellers to comply on the required timing of the disclosure by sharing costs at the *time of listing*, when consumers still have an opportunity to consider energy costs in their decision. It also seems agents are taking advantage of this convenience to streamline the listing process. Second, it indicates that sharing energy cost information up front seems to support the homebuyer's decision-making process rather than constrain it. The current model allows for greater transparency to the buyer and this analysis shows no negative consequence.

The most recent analysis also found that 94.8% of Chicago Community Areas have at least one home that has disclosed energy costs.

Time Spent on Market

While a home that sells too quickly might indicate that it is priced too low, neither real estate agents nor owners want a home to sit on the market for long periods of time. Both attached and detached homes in Chicago that disclosed energy costs spent fewer days on the market than their counterparts that did not disclose costs. Attached ECD homes were on the market for 69 days compared to 93 days for homes that did not comply with the ordinance. Detached homes also stayed on the market for less time when they disclosed (111 days compared to 104 days), although the difference is noticeably smaller. Both of these findings are statistically significant at a p-value of <.01.

Next Steps

In this analysis, Elevate Energy looked at some of the most important real estate metrics, but there are many more that will help determine the magnitude of the effect of disclosing energy costs. The next round of analysis will employ techniques, such as hedonic price modeling, that will help flatten differences between houses. While the current analysis presents a clear correlation between energy cost disclosure and close rate and time spent on market, a next round of analysis will help determine causation. Further research will also help isolate other variables such as home types and listing agents, and could illuminate additional benefits of disclosure for others involved in the real estate transaction.

* Indicates a statistically significant finding with a p-value<.01.