

All-In-One: Sustainability and Affordability

The connection of energy efficiency to affordability and sustainability is an easy one to see

By Valerie Briggs

At RESNET, we believe an energy efficient home is an affordable home. As the creators of the Home Energy Rating System Index, or HERS Index as it's better known, we know it informs homebuyers on how a house ranks for energy efficiency, the projected energy costs and the total cost of a home.

Some of the builders of the over 3 million HERS Rated homes built to date would say the same. One of those builders is Habitat for Humanity International (HFHI), a longtime advocate for affordable housing and the 27th largest homebuilder in the U.S. in 2021. To date, Habitat for Humanity has built 12,372 homes that were HERS rated.

In 2021, RESNET and HFHI furthered their mutual commitment to efficient affordable housing by entering into a formal collaboration to promote the work of their members and promote affordable housing that is also sustainable. As part of the collaboration RESNET and HFHI will cross-promote the HERS ratings as the metric of energy efficient homes and the efforts of Habitat in creating efficient, affordable homes. The goal is to create tools each organization's members can use to demonstrate the alliance between energy efficiency and long-term affordable housing.

Despite the continued impact of the pandemic and economic slowdown, 2021 broke the record of the number of HERS rated homes. In 2021, there were 313,153 homes in the U.S. that were HERS rated and issued a HERS Index Score. The average HERS Index Score nationally was 58, meaning HERS homes built in 2021 are 42% more efficient than a HERS Reference Home (equivalent to the 2006 IECC). See graph at right.

The importance of HERS Ratings to publicly traded builders has been increasing as investors look more at environmental, social and governance (ESG) factors in their investment decisions. The Sustainability Accounting Standards Board (SASB) has a corporate reporting standard specifically for the homebuilding industry. In its standard, SASB recommends that builders report on the number of homes they had HERS Rated, the average HERS Index score and how many ENERGY STAR homes they certified.

Lastly, one of the two major purchasers of mortgages on the secondary market, Freddie Mac, used data provided by RESNET on HERS rated homes from 2013 to 2017 to select a random sampling of about 70,000 HERS rated homes. Among other things, their study found that HERS rated homes have lower delinquency rates than unrated homes, and homes with lower HERS Index Scores had even lower delinquency rates.



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Simply put, saving on energy costs can help a homeowner afford their mortgage.

Under Freddie Mac's Single-Family Green Mortgage Back Security (MBS) program, introduced in January 2022, the secondary mortgage market offers incentives for lenders on new single-family homes that achieve a HERS Index score of 60 or less. Another major purchaser of mortgages, Fannie Mae, has offered its Green MBS program for new single-family homes is based on ENERGY STAR Certification, since 2020. Independent verification for homes in the program is conducted by RESNET accredited Rating Provider, PEG, LLC. The mortgage lender recently announced that its Single-Family Green Mortgage-Backed Securities (MBS) program eclipsed \$1 billion in issuance in just two years.

For lenders, builders and homeowners, the connection of energy efficiency to affordability and sustainability is an easy one to see. As the demand for HERS ratings grow, with over 300,000 HERS homes built annually, it may lead to a win-win for affordable housing.

Top Ten States of Percentage of New Homes HERS Rated

The following are the top ten states in terms of the percentage of new one- and two-family dwellings that were HERS rated in 2021.

| STATE | PERCENTAGE OF NEW HOMES HERS RATED |
|---------------|------------------------------------|
| Massachusetts | 80% |
| Indiana | 50% |
| Arizona | 43% |
| Colorado | 42% |
| Minnesota | 42% |
| Nevada | 42% |
| Ohio | 40% |
| Delaware | 38% |
| Texas | 36% |
| Iowa | 33% |

Based on the number of HERS Ratings on one- and two-family dwellings in RESNET's National Buildings Registry and permit data from the U.S. Census Bureau.

