GARDNER JOHNSON

BUILT GREEN™ VALUE ANALYSIS

EAST KING COUNTY SINGLE-FAMILY RESIDENTIAL & SEATTLE MULTIFAMILY TOWNHOME MARKETS

Prepared for:

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I. ABSTRACT

The data provided by Built Green™ for the creation of this study goes a long way to aid in the understanding of environmental certifications' effects on the values and consumer preferences for residential housing units. Further study of this data will yield informed and practical results which can be utilized to improve the efficacy of green building strategy and improve both quality of construction and reduce environmental impacts stemming from the built environment.

Some of the findings of this study are:

- Built Green™ certified homes have held value (have not shown any levels of depreciation) as a group in comparison to their non-certified counterparts.
- East King County Built Green™ certified homes did not show median price depreciation through August of 2008 whereas uncertified homes showed an overall decline of 2%.
- From 2005 through August of 2008, Built Green™ certified home sales rose from 9% of total new construction sales to 23% of total new construction sales.
- Among Seattle townhome sales, Built Green™ certified townhomes have seen an inverse average sales price relationship to uncertified townhomes over time. As average prices for uncertified Seattle townhomes declined in 2007 and 2008, average sales prices from Built Green™ certified townhomes rose.
- During the year 2008 Built Green™ certified townhomes appreciated 8% where uncertified townhomes lost 4% in average sales prices.
- During 2007 and 2008, Built Green™ certified townhomes in Seattle saw a 4% and 16% respective premium over uncertified townhomes.
- Seattle neighborhoods with the highest percentage of Built Green™ certified townhomes showed the highest premiums for certified vs. uncertified properties.
- It is the recommendation of this study that further measurements be drawn from this data set in order to create a Hedonic statistical model, isolating Built Green certification's effects on prices and values.

One area of emphasis which was an especially bright spot throughout this analysis was the retention of value by Built Green™ certified housing units in King County. Throughout the data analyzed in this study, neither the certified East King County single-family homes nor Seattle townhomes depreciated on a year over year basis. That apparent retention of value is something which should give pause to critics of the value of the environmental certification process. A saying which has been used time and again to describe consumer investment choices throughout the recession has been that of a "flight to quality". An interesting hypothesis could be laid upon the evidence reflected in this study, a hypothesis that surmises that part of the flight to quality in residential buildings in King County may be represented in ongoing choices of consumers to choose green buildings over uncertified homes. While statistically untested, this hypothesis is logical in a world where speculators have stopped buying anything with four walls and a title and residential choices are more representative of consumers who are looking for a home and not just an asset.

Many of the conclusions drawn from this study require more sophisticated statistical analysis in order to narrow the metrics for the quantitative value of green building. However, the cases presented here offer real evidence that green building has something to tell us about value and value retention.

II. INTRODUCTION

This analysis will quantify the effects of environmental certification, specifically the certifications of Built Green™ (a non-profit, residential, environmental certification program), on the value and composition of residential homes in specific areas of King County. This analysis will present an objective picture of two data sets within each geographic region, one set containing Built Green™ certified homes and the other set containing uncertified homes. The analysis is meant only as a tool to look at historic residential land use trends and cannot, without further study, be assumed to provide hedonic statistical relationships relating to certified versus uncertified homes in the region. In other words, people's preferences are difficult to quantify in regard to residential housing units due to the innumerable variables which may affect purchasing decisions regarding those units.

The case which will be made in this study should be a basis for the reader to better inform their own opinions regarding the value of green building within residential home products. While many trends within this analysis will lend some validity to various consumer preferences, many variables are, as a matter of time and other constraints, impossible to include in a single historic analysis of green building in King County. This analysis will, at times, interject *potential* reasoning for trends in value of these homes and at such times these conclusions will be noted only as possibilities, not as hard and fast denominators of monetary value or physical characteristics of the data in question. Recommendations for further study are addressed in the Abstract of this document in order to explain potential expansion of this analysis in helping to achieve the goal of assessing consumer preferences in housing choices.

Built Green™ began its certification program in 2000 and has since certified over 10,000 homes within King County. The program has a "five star" rating system with five stars being the highest rating possible for low impact, energy efficient development. The ongoing question posed by the sustainability movement is, do green buildings add monetary value to residential units and what does a sustainable community look like? Without question, a focus on sustainability and low environmental impact development has value from a holistic perspective. Environmental homes will inevitably save the consumer money over time, at least from a cost perspective. Better insulation, energy efficient appliances and other cost saving attributes will reduce costs associated with running the home and recycled materials can help reduce societal costs like waste disposal and resource consumption. While these aspects of green building are worthy of analysis, this study will not address specific metrics of cost, construction methods or even the make-up of Built Green's™ requirements for certification. It will only seek to separate trends associated with value and spatial composition of each of the data sets, both certified and uncertified homes.

The two geographic regions which will be assessed throughout this study will be the eastern side of King County, including cities north of Auburn and south of Bothell and to the west of the Cascades. The second geographic region in this study is the City of Seattle and will include the neighborhoods of Capitol Hill, Queen Anne, North Seattle, West Seattle and South Seattle.

The study of East King County will include only single-family homes within the regional market area and will further break out attributes of those units by cities within the market area. The study of the Seattle market area will include only townhomes within Seattle. The assumption and indeed assertion of this study will be to make a case for an "apples to apples" comparison of this product type within various neighborhoods within the Seattle market area.

Methodology

The primary method for organizing the data presented in this analysis was the use of GIS software to join information from one database of records to another. One database contains Built Green™ certified address records and the other contains King County parcel data including sales records.

Built Green™ has provided a database with the addresses of all of the homes it has certified throughout the life of the organization. The database is, as most databases are, a manually created table including attributes for each unit certified. These attributes include: address, builder, "star level" or score, year built, property type and notes on publicly subsidized projects. As with any manually created database, errors are present due to human error in the data entry process. As a result of the errors, certain addresses which include certified homes have not been included in the data set containing certified houses. In some cases, homes within the primary data set for uncertified units might actually be certified homes. Because the data set containing uncertified homes contains thousands of records, any impact on the attributes of this data by certified homes should be miniscule as unknown certified homes will only be a tiny fraction of this data set (most likely less than 1 percent). In some cases Built Green™ certified homes are recorded with an incorrect address. All of the records represented in this study are derived from sales and therefore cannot represent every house certified by Built Green™ as some of the homes in Built Green's database have not sold or have sold after August of 2008.

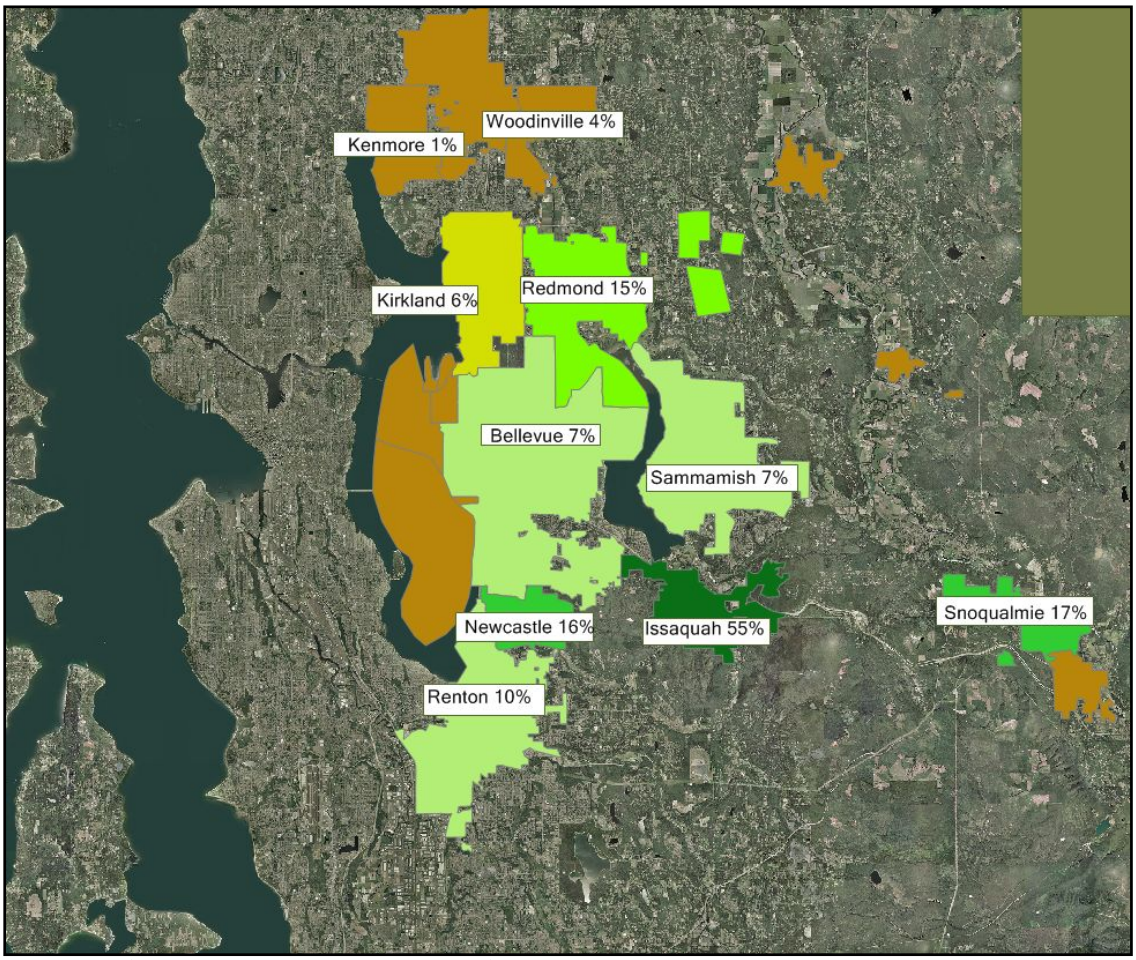
Because the assessor ties the sale of homes to a parcel of land, some of the assessor's records contain sales that represent land sales. In these cases the land sales are either very high in sales price, such as sales records associated with undeveloped plats which may contain many lots/new parcels, or very low, such as sales records associated with individual and undeveloped lots/parcels. An attempt has been made to eliminate these parcels from the data set, at the cost of a few legitimate records. However, some land sales will inevitably find their way into the data set, especially the lower priced vacant lot sales associated with the individual parcels. All sales of single-family homes in this data come from homes built between 2000 and 2008 unless otherwise noted and all townhome sales come from homes built between 2004 and 2008. The sales associated with each data set will not always represent new construction, but will come from a set of recently built homes in order to eliminate sales of dated housing stock.

III. East King County Single-Family Analysis

Overview of Geography

The following map contains cities on the east side of King County, with the names of each city where Built Green™ has a strong presence (greater than 1 percent of sales between 2005 and August of 2008). The map shows the names of each city and the relative percentage of sales of certified homes in the given time period. Issaquah represents the highest percentage of homes sold under Built Green™ certification and as such is colored the darkest shade of green in the map. Snoqualmie comes in second with 17 percent of all sales within the three year and eight month period. One statistic in this map which is somewhat misleading is the city of Snoqualmie. The Snoqualmie community most certainly saw more than 17% of its sales as certified sales, however, the map below only takes into account sales which occurred inside the boundaries of cartographically defined city boundaries by the state of Washington. In essence, the main development in which most Built Green™ certified homes were built is not in the geospatial area of the city of Snoqualmie.

Context Map-East King County



Source: Aerials Express, King County Assessor, Built Green™

CERTIFIED SALES BY CITY

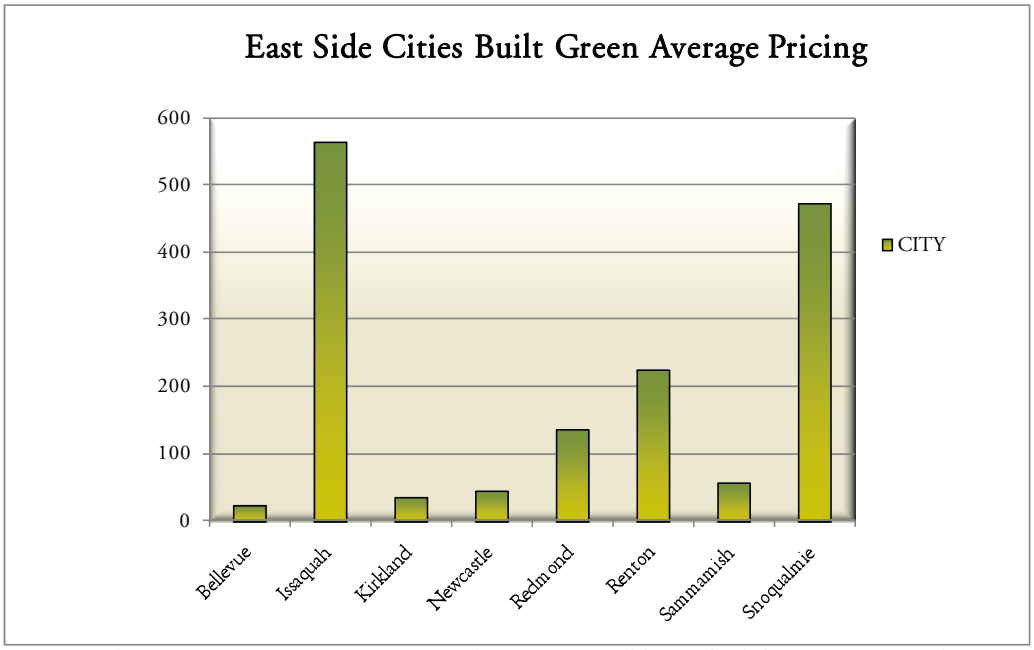
2005 – AUGUST, 2008

CITY	2005	2006	2007	2008 (AUG)	Total
Bellevue	7	1	13	2	23
Issaquah	182	232	109	42	565
Kirkland	15	8	8	4	35
Newcastle	1	15	23	5	44
Redmond	22	24	56	35	137
Renton	82	71	57	15	225
Sammamish	19	9	13	17	58
Snoqualmie	21	163	213	77	474

Source: Aerials Express, King County Assessor, Built Green™-- All homes built between 2000 and 2008

Not surprisingly, certified homes are well represented in cities containing a high proportion of master planned communities. Issaquah Highlands is the primary driver for Issaquah's staggering number of environmentally certified homes whereas older and more established cities such as Bellevue show far fewer certifications as a result of older housing stock with fewer possibilities for large numbers of production style or spec homes built in master planned neighborhoods.

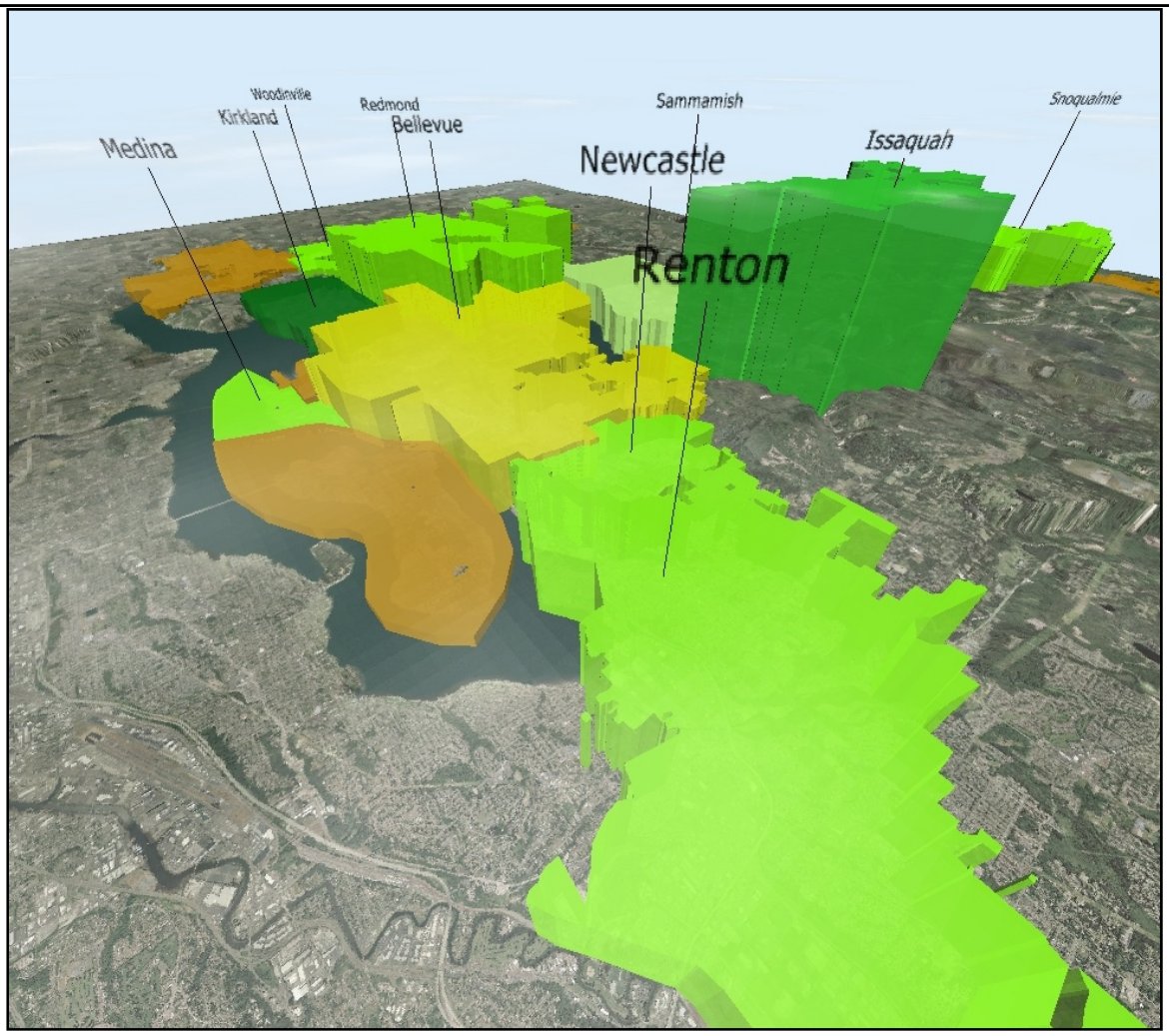
EAST KING COUNTY CERTIFIED SALES BY CITY



Source: Aerials Express, King County Assessor, Built Green™-- All homes built between 2000 and 2008

EASTSIDE SALES BY CITY, STAR LEVEL & NUMBER OF CERTIFICATIONS

CITY	Bellevue	Issaquah	Kirkland	Newcastle	Redmond	Renton	Sammamish	Snoqualmie
Star Level	2.9	3.2	3.4	3.0	3.0	3.2	3.0	3.0



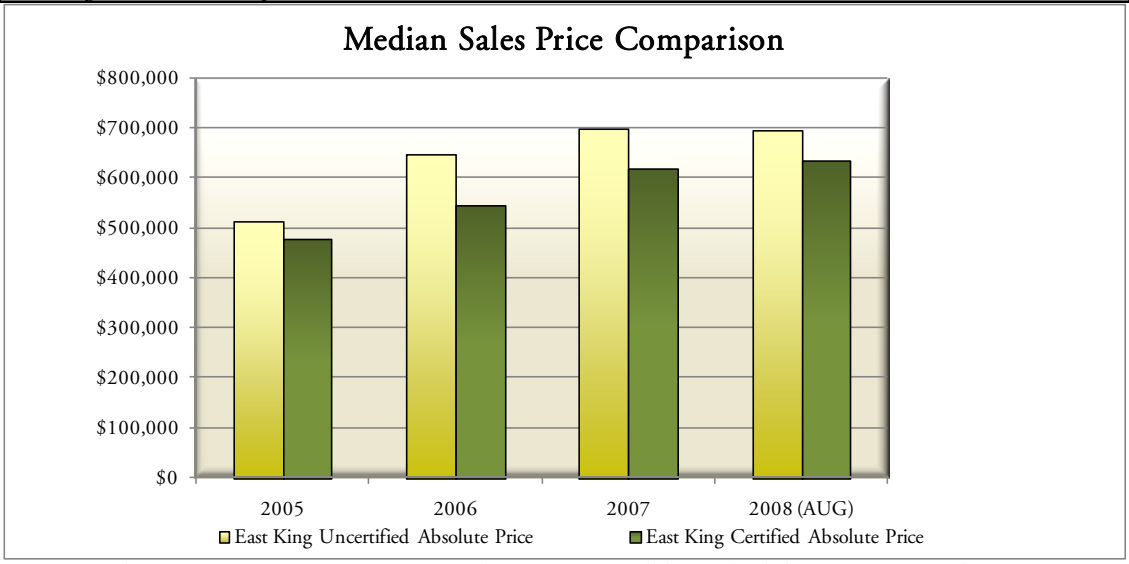
Source: Aerials Express, King County Assessor, Built Green™

The graphic above represents an extrusion of city geometries by the number of certified home sales between 2005 and 2008. The colors of each of the cities represents the star level from the chart above the graphic, with the highest star level colored the darkest green and the lowest colored brown. Kirkland, although representing few certified home sales, contains the highest average certification level of all of the cities. This is primarily the result of the Cottage Company's development of a cottage community in Kirkland which received a high certification level and represents a large portion of Kirkland's certified homes. Issaquah is second place in star level and first in total certifications. If there were a competition "greenest" residential suburb in the United States, Issaquah would at least be in the running.

Comparison

Certified Vs. Uncertified Sales
East King County Median Prices 2005 - August, 2008

Year	2005	2006	2007	2008 (AUG)
East King Uncertified Absolute Price	$515,600	$650,000	$699,000	$695,000
East King Uncertified Price/Square Foot	$203	$241	$262	$257
East King Certified Absolute Price	$478,500	$546,600	$619,975	$634,821
East King Certified Price/Square Foot	$204	$220	$230	$225

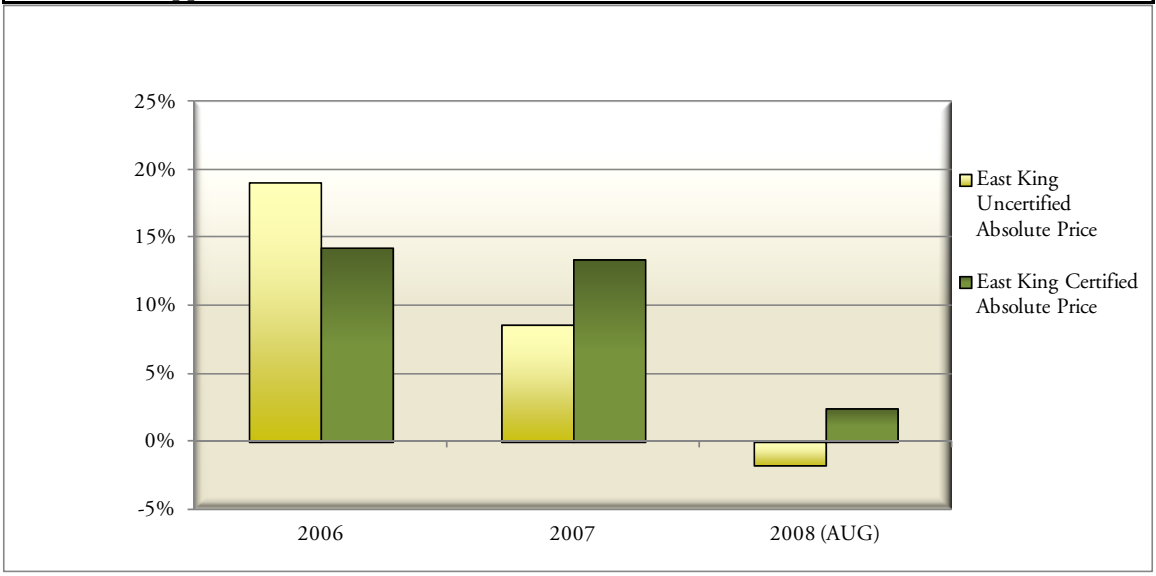


Source: Aerials Express, King County Assessor, Built Green™ -- All homes built between 2000 and 2008

The table and graph above represent median sales prices in East King County of both Built Green™ certified and uncertified homes. Built Green™ certified homes show distinctly lower year over year median prices when compared to uncertified homes. As will be shown later, single-family sales in East King County are difficult to compare on a price and price/square foot basis as there are many factors influencing price within each city, community and even neighborhood. One example of variables affecting sales prices comes from the community in which certified and uncertified homes are sometimes located. Built Green™ homes are often built in master planned developments. Many of the custom homes on the East Side are uncertified; in fact, all or nearly all of Mercer Island's residential housing stock consists of custom homes. It is understandable that prices in East King County show higher median sales prices for uncertified homes when many homes built in the wealthiest communities do not register under an environmental certification. That's not to say that custom homes do not have solar panels, it just means that the builder who added any energy saving or sustainable features did not do so under the auspices of a Built Green™ certification. Needless to say, many outlying variables contribute to the price of a home and even though Built Green™ certified homes' median prices were lower than uncertified homes, the certification itself is likely to be uncorrelated with the difference in price.

Certified Vs. Uncertified Appreciation
East King County 2006 – August, 2008

Year	2006	2007	2008 (AUG)
East All Appreciation	19%	9%	-2%
Built Green Appreciation	14%	13%	2%



Source: Aerials Express, King County Assessor, Built Green™ -- All homes built between 2000 and 2008

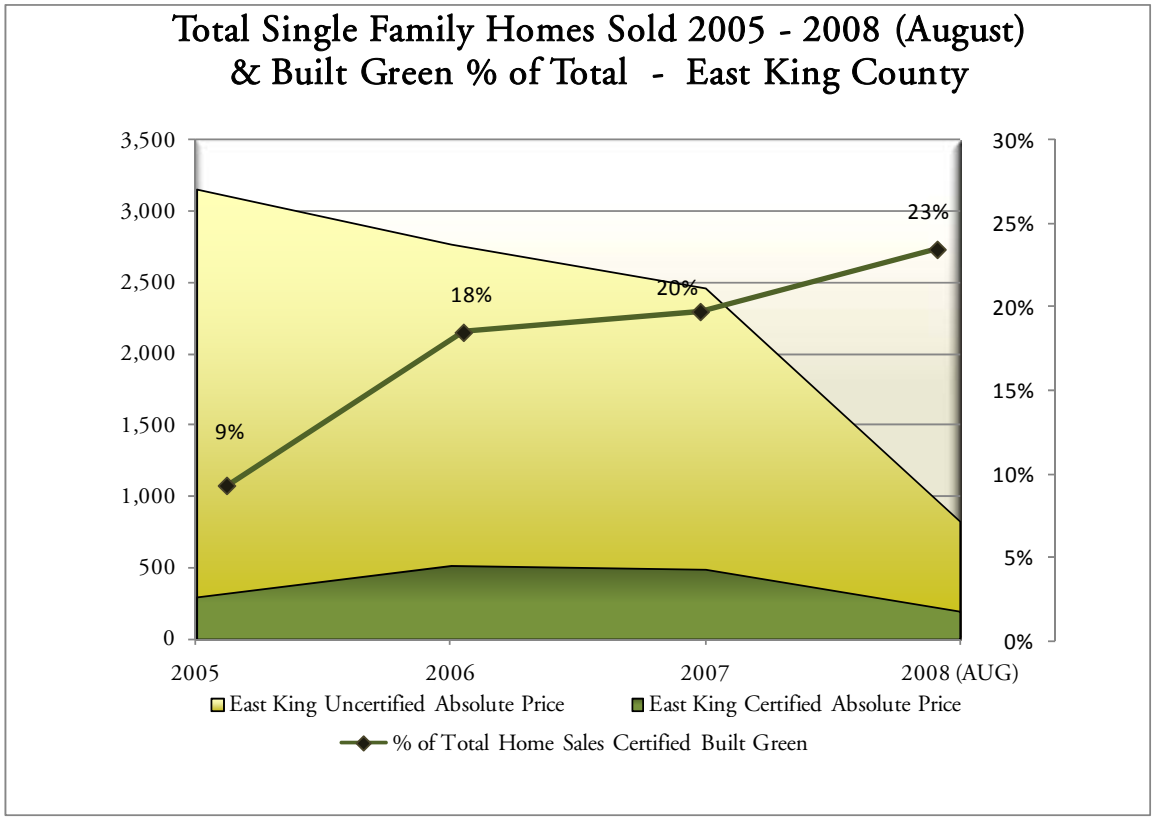
Single-family appreciation figures for both certified and uncertified median prices in East King County are shown in the table and graph above. In 2006, appreciation was higher for uncertified homes than for Built Green™ certified homes. However, during 2007 and 2008, Built Green™ certified homes represented a 4 percent appreciation premium over uncertified homes. This data does not necessarily show an absolute change in price trends, but it does show a change over the three year period, making the possibility of certified houses' equity retention a potential benefit to the Built Green™ certification. One thing to keep in mind is the recessionary environment in which much of this appreciation occurred. The downturn in the King County housing market began, from a deflationary perspective, in the year 2007. Through August, certified homes have not, as of yet, lost equity to price deflation and even appreciated by 2 percent. Further study may show that even certified homes lose some value in the face of recession but they may not depreciate to the same levels as uncertified homes. These assumptions could be partially tied to variables other than environmental certification; however, the figures above are still compelling.

COMPARISON OF CERTIFIED AND UNCERTIFIED SALES VOLUMES
EAST KING COUNTY, 2005 - AUGUST, 2008

Year	2005	2006	2007	2008 (AUG)
Counts Built Green	293	512	486	194
Counts ALL	3166	2778	2470	829
% Total Sales Built Green	9%	18%	20%	23%

Source: Aerials Express, King County Assessor, Built Green™ -- All homes built between 2000 and 2008

The table above and the chart below show certified homes and uncertified homes by number of sales. The line in the graph below represents Built Green™ certified homes as a percentage of total volume. Over time, Built Green™ certified sales have increased as a percentage of total sales, with 2008 sales at 23 percent of total sales in East King County. Volume for all housing has dropped through 2008 but the trend in Built Green™ certified sales as a percentage of that volume has continued to rise despite decreasing sales numbers.



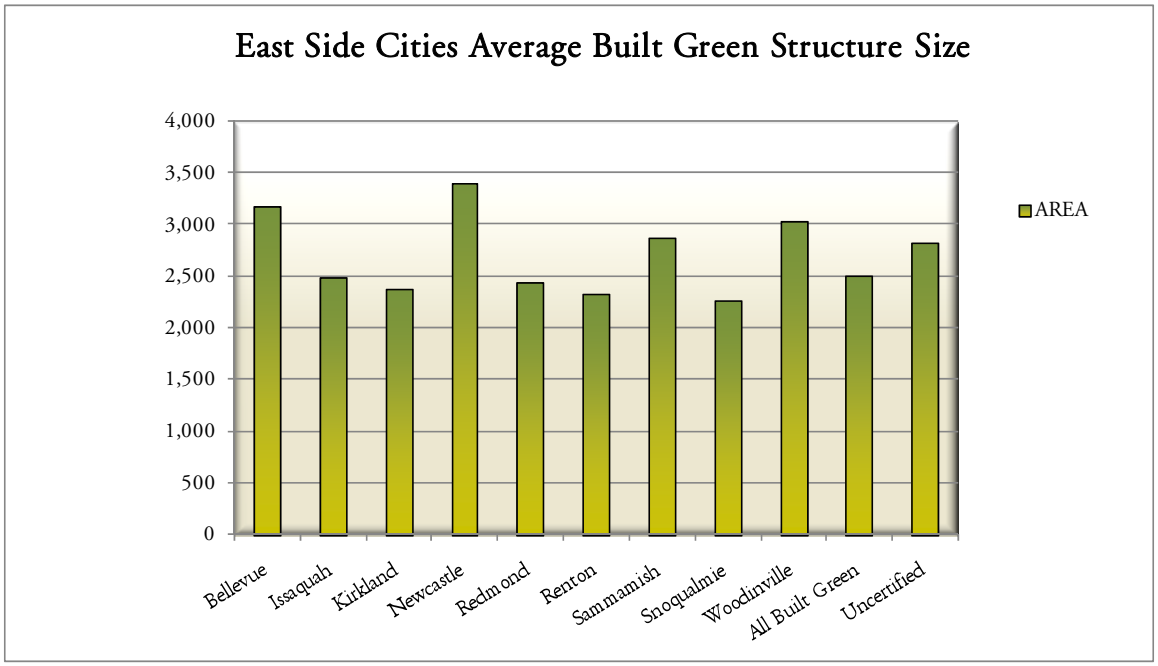
Source: Aerials Express, King County Assessor, Built Green™ -- All homes built between 2000 and 2008

Average Structure and Lot Sizes
East King County Homes

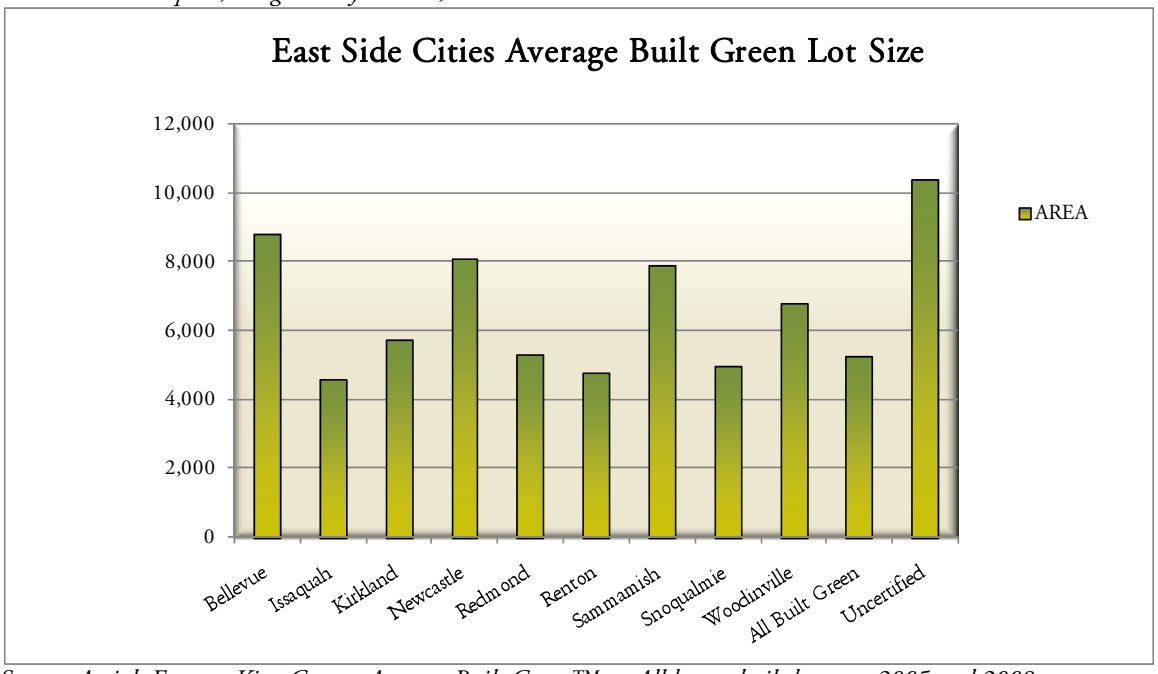
AREA	Average Structure Size	Average Lot Size
Bellevue	3177	8799
Issaquah	2496	4586
Kirkland	2382	5752
Newcastle	3401	8122
Redmond	2444	5304
Renton	2326	4799
Sammamish	2871	7928
Snoqualmie	2275	4986
Woodinville	3032	6787
All Built Green	**2507**	**5270**
Uncertified	**2820**	**10393**

Source: Aerials Express, King County Assessor, Built Green™ -- All homes built between 2000 and 2008

As a natural course of development moves toward master planned communities, it is understandable that Built Green™ homes will be built on smaller lots and potentially have smaller square footages. The data above shows the average structure size and lot size for both certified and uncertified homes across cities in East King County. Uncertified homes are shown at the bottom and are compared to all Built Green™ home sizes and lot sizes. The average lot size for Built Green™ homes was almost half that of uncertified homes with average structure sizes about 12 percent below uncertified homes. Uncertified homes also include some homes from unincorporated East King County, resulting in average lot sizes which are much larger than lots within cities and certainly larger than lots within master planned communities.



Source: Aerials Express, King County Assessor, Built Green™ -- All homes built between 2000 and 2008



Source: Aerials Express, King County Assessor, Built Green™ -- All homes built between 2005 and 2008

IV. Seattle Townhome Analysis

Methodology

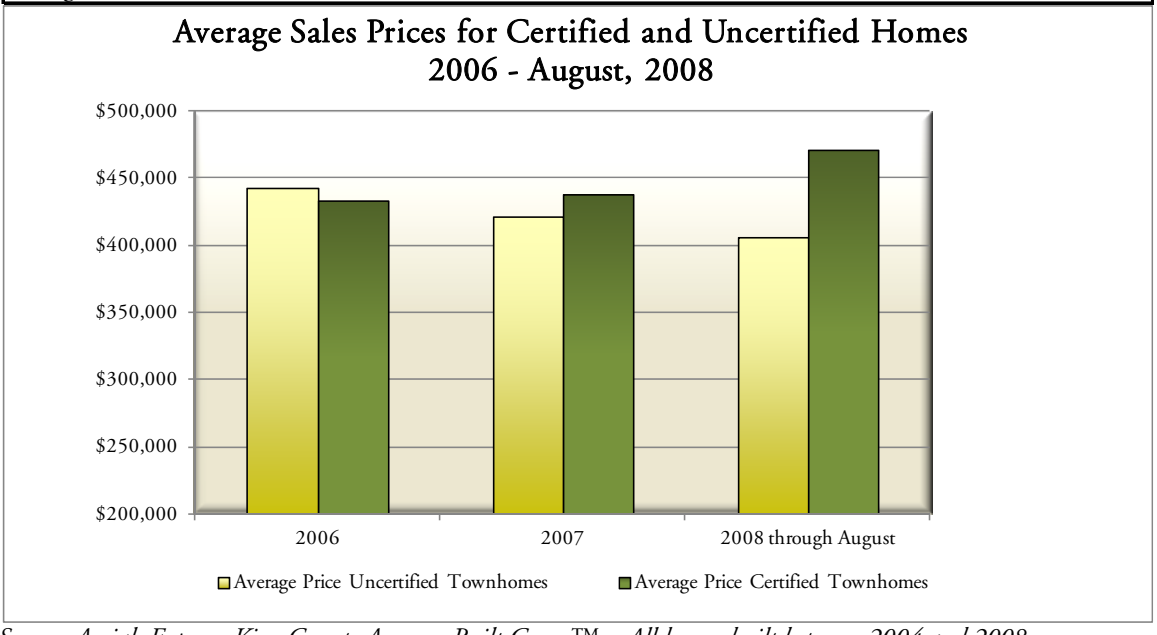
The Seattle townhome market is a younger market for Built Green™ and as a result, sales were analyzed for the years 2006 to 2008 and included residential units built between 2004 and 2008. Assessor's data was used in the same manner as the East King County single-family study and an attempt to normalize the data was made by eliminating units which are subsidized, rental or condominiumized. All townhomes included in this study, both certified and uncertified homes are fee-simple designation units. In other words, townhomes in Seattle typically sell as individual units with individual land and structure ownership despite common walls.

Comparison

The Seattle townhome market presents some comparable sales and appreciation numbers which show some similar and some disparate trends when compared to East King County numbers. The chart and graph below show these numbers in terms of average sales prices across Seattle townhomes.

Average Prices by Year
Seattle Townhomes

Year	2006	2007	2008 (AUG)
Average Price Uncertified Townhomes	$442,507	$421,860	$405,843
Average Price Certified Townhomes	$433,255	$437,790	$470,635

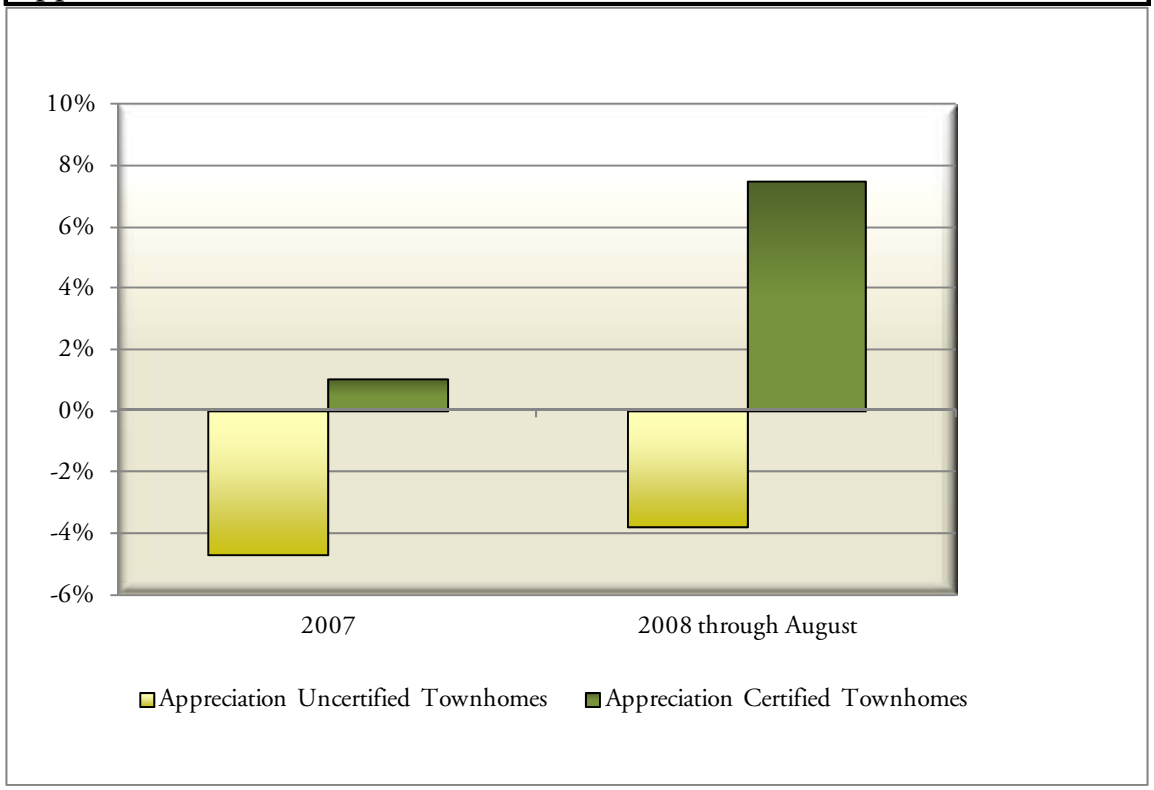


Source: Aerials Express, King County Assessor, Built Green™ -- All homes built between 2004 and 2008

Average sales prices for Built Green™ certified townhomes in Seattle follow an interesting pattern in that 2006 seems to be the only year where Built Green™ certified townhomes received a slightly lower average price than uncertified townhomes. 2007 shows Built Green™ certified units surpassing uncertified units in terms of average sales prices. The chart and table below detail the difference in appreciation of uncertified and certified townhomes in Seattle from January 1, 2007 through September 1, 2008.

Appreciation of Average Prices
Seattle Townhomes 2006 - August, 2008

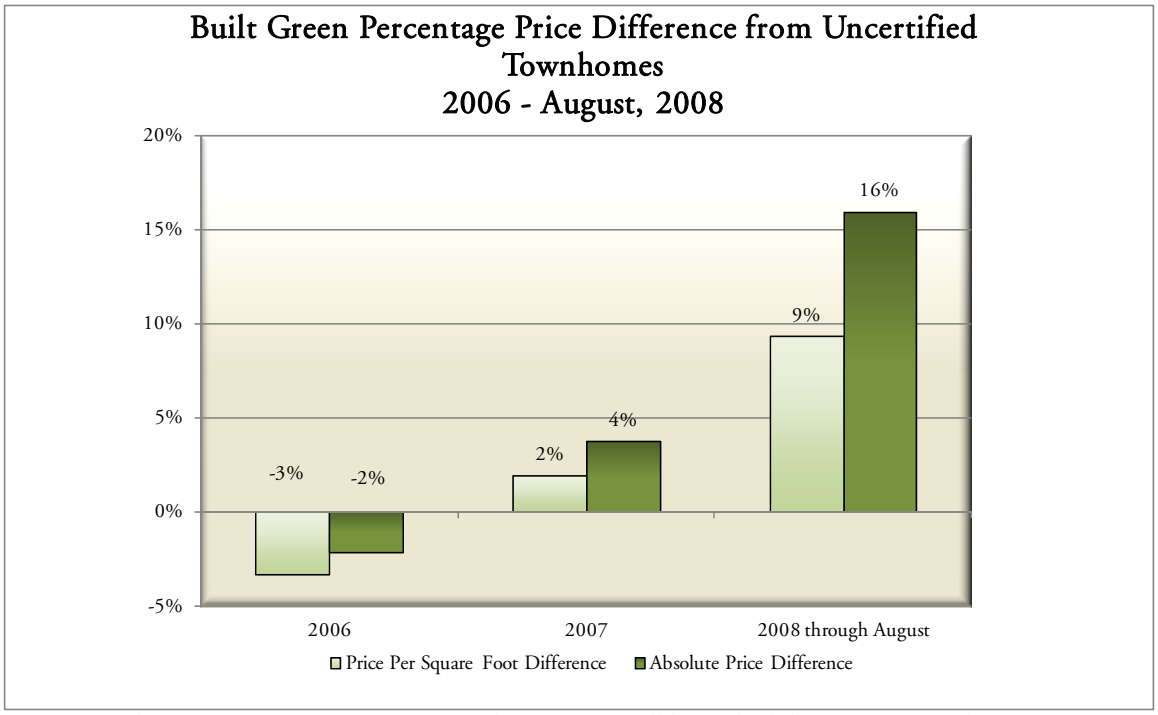
Year	2007	2008 (AUG)
Appreciation Uncertified Townhomes	-5%	-4%
Appreciation Certified Townhomes	1%	8%



Source: Aerials Express, King County Assessor, Built Green™ -- All homes built between 2004 and 2008

During the time period shown above, average prices for uncertified townhomes saw a net depreciation of 9 percent and Built Green™ certified townhomes showed a net appreciation of 9 percent or the same percentage as the depreciation for sales of uncertified townhomes. Townhomes for both of these categories were pulled from across all neighborhoods in Seattle representing many various townhome communities in as many locations.

The table below shows the change in percentage price between certified and uncertified homes over time. In 2006, prices and prices per square foot of certified townhomes were lower than uncertified homes by 2 percent and 3 percent respectively. Through 2008 the average prices of townhomes rose to 16 percent above those of uncertified townhomes and 9 percent above prices per square foot. Even though the Built Green™ sample size is smaller than the uncertified sample size, the difference in prices over time is astonishing.



Source: Aerials Express, King County Assessor, Built Green™ -- All homes built between 2004 and 2008

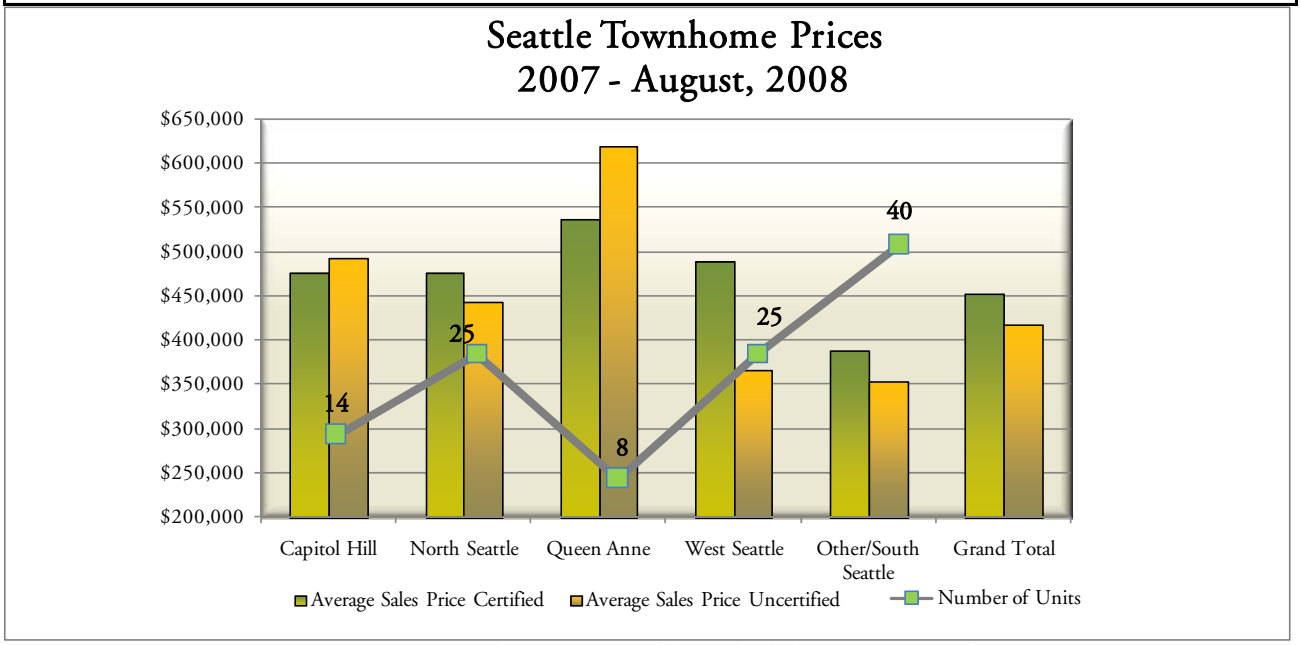
Data Sets Explained

The following table shows the average price and average price per square foot by neighborhood for both certified and uncertified townhomes. The grand total rows show the difference in prices between all certified and uncertified homes. Naturally, not all neighborhoods follow the trends of the totals. In some neighborhoods, the average Built Green™ certified home is less than uncertified homes. However, when looking at the graph below the table, the neighborhoods with the highest number of Built Green™ certified homes display the highest premium for Built Green™ certified townhomes versus uncertified townhomes.

Built Green Certified and Uncertified Townhomes 2007 - August, 2008
Data Used for Simple Regression

Neighborhood	Certified Average of Price SF	Certified Sales	Certified Average Sales Price
Capitol Hill	$287	14	$477,321
North Seattle	$302	25	$476,068
Queen Anne	$339	8	$536,925
West Seattle	$255	25	$489,077
Other/South Seattle	$270	40	$388,046
Grand Total	$281	112	$452,039

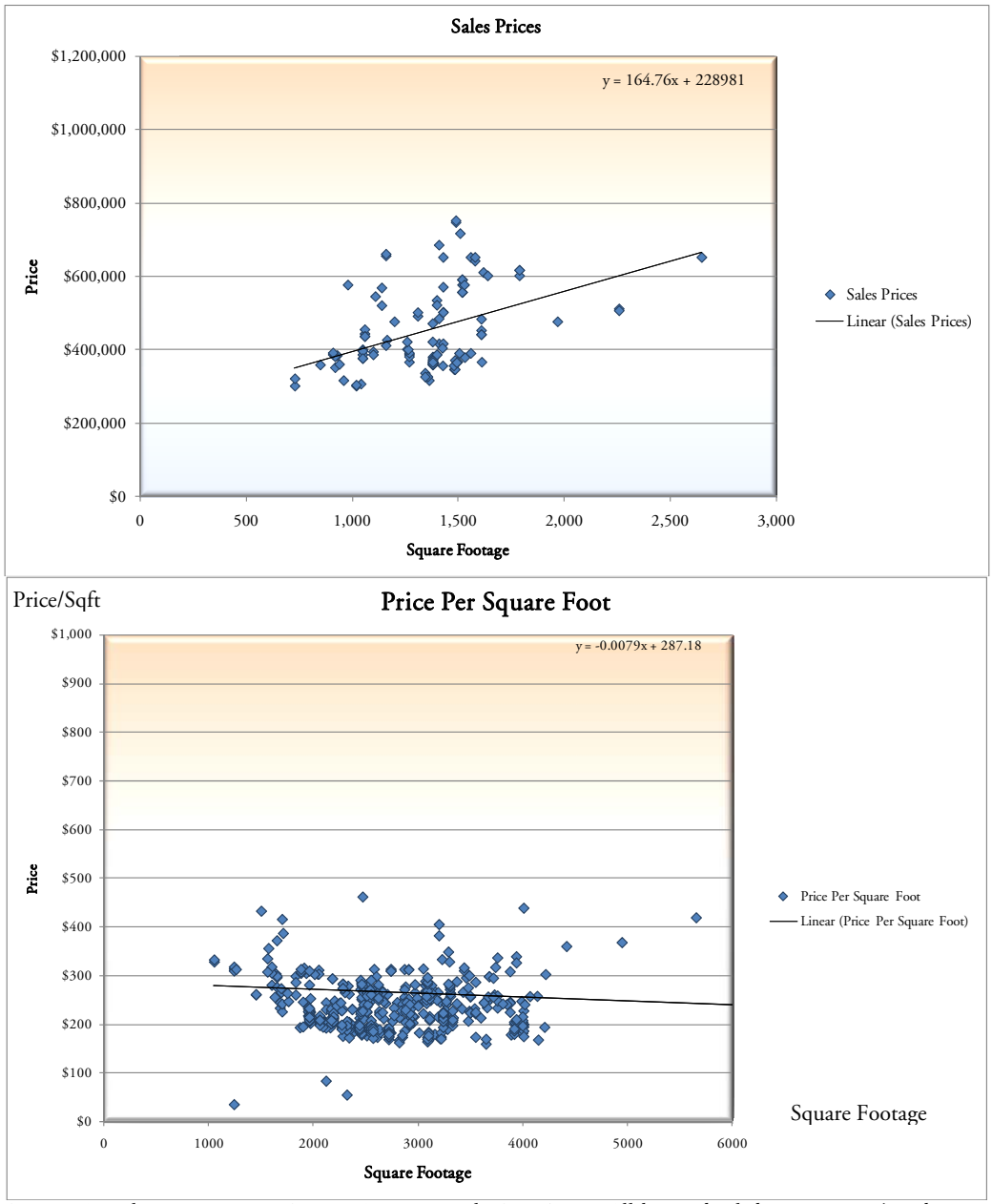
Neighborhood	Uncertified Average of Price SF	Uncertified Sales	Uncertified Average Sales Price
Capitol Hill	$295	197	$494,027
North Seattle	$304	538	$442,975
Queen Anne	$343	75	$619,964
West Seattle	$231	315	$366,430
Other/South Seattle	$237	426	$353,192
Grand Total	$271	1551	$417,812



Source: Aerials Express, King County Assessor, Built Green™ -- All homes built between 2004 and 2008

The following two scatter plots show all Built Green™ certified townhome sales with price and price per square foot on the y axis and structural square footage on the x axis. In this case the dependent variable is the price (y-axis) and independent variable (square footage) is shown on the x-axis. This scatter plot shows one of the simplest principles in real estate; in like products such as townhomes and condominiums, as square footage increases, absolute price also increases and, as shown in the second graph, as square footage increases, price per square foot decreases. The predictive power of square footage on sales price is fairly limited, but rather shows a trend in sales prices as a result of square footage.

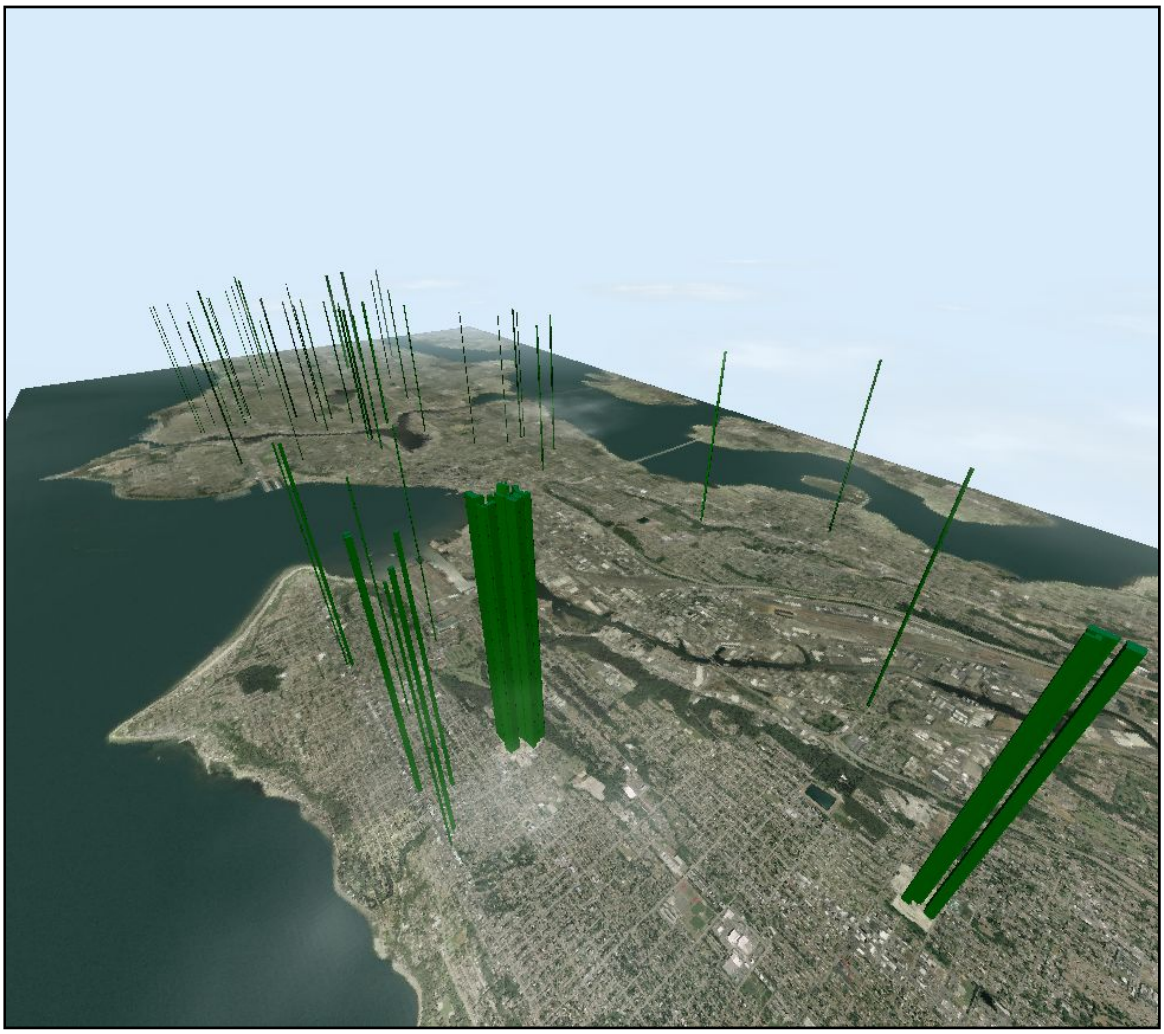
CERTIFIED TOWNHOME PRICE & PRICE/SF 2007 – 2008 (AUG)



Source: Aerials Express, King County Assessor, Built Green™ -- All homes built between 2004 and 2008

The following graphic shows townhome plats which are Built Green™ certified and used in this analysis. Each plat is fairly evenly distributed throughout the city of Seattle (shown below). Representation throughout the city helps to normalize the data set when compared to all townhomes sold in the city. A few of the Built Green™ townhomes, shown below have been excluded because they are partially subsidized projects. However, the averages prices for Built Green™ certified experience almost no change when subsidized units from plats such as the High Point community are included in the data set.

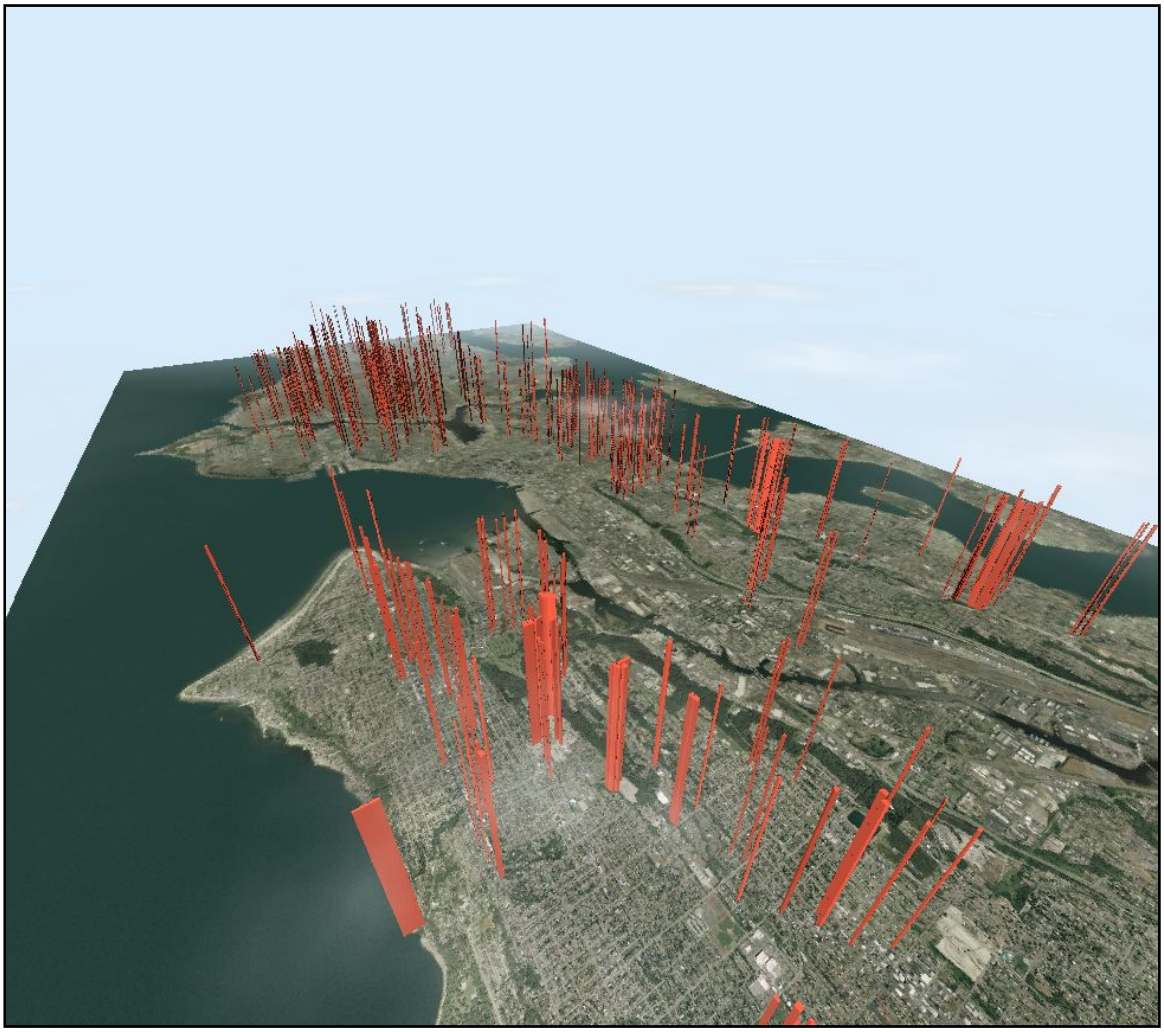
BUILT GREEN™ CERTIFIED TOWNHOME SALES 2007 – 2008 (AUG)



Source: Aerials Express, King County Assessor, Built Green™ -- All homes built between 2004 and 2008

The graphic on the following page shows the location of uncertified townhomes and serves to visually compare the locations of the two data sets presented in the Seattle townhomes analysis. The distribution of uncertified townhomes is also geographically diverse and helps to show normalcy between the two data sets.

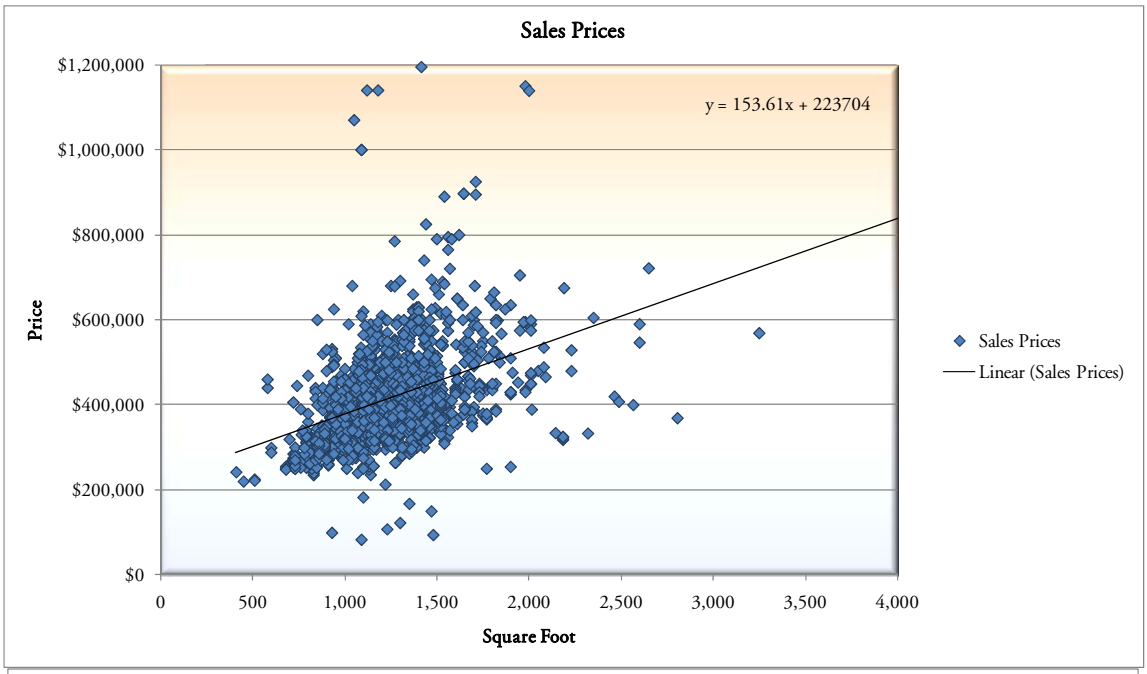
UNCERTIFIED TOWNHOME SALES 2007 – 2008 (AUG)

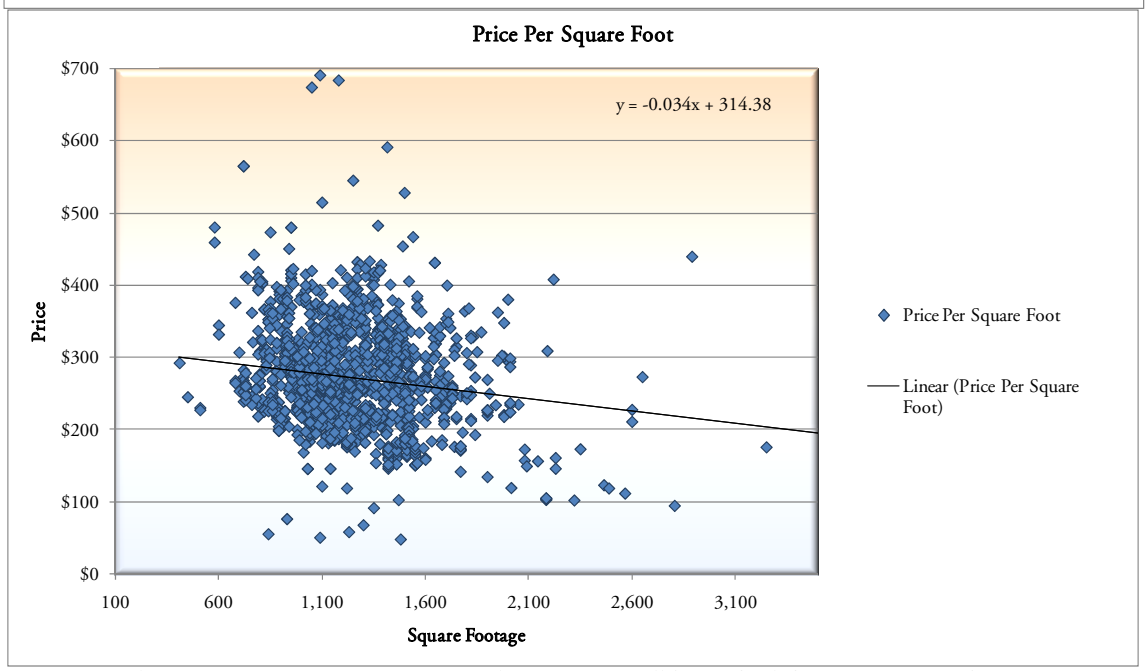


Source: Aerials Express, King County Assessor, Built Green™ -- All homes built between 2004 and 2008

The scatter plots on the following page show a linear trend line amidst all uncertified townhomes sold in Seattle in 2007 and 2008. The scatter plots show the same trend in sales price and square footage as the charts for Built Green™ certified homes, reflecting an increase in price as acted upon by square footage and a decrease in price per square foot under the same independent variable. What is interesting to note is that the slope of the line is almost the same for the sales price chart below (uncertified townhomes) and the sales price chart on page 16 (certified townhomes). The sales prices of the two data sets, both certified and uncertified sales, show similar variances around their individual means. For both certified and uncertified homes, the same increase in square footage brings about the same mean increase in price. This trend helps make a case for equality among un-quantified variables within the data sets. For example, it is not easy to tell which of these townhomes have better finishes, but it stands to reason that there may be enough similarity in the variation of finishes within the data set to account for similar slopes between the two sets as well as similar standard deviations from the mean price.

UNCERTIFIED TOWNHOME PRICES & PRICES/SF
2007 – 2008 (AUG)





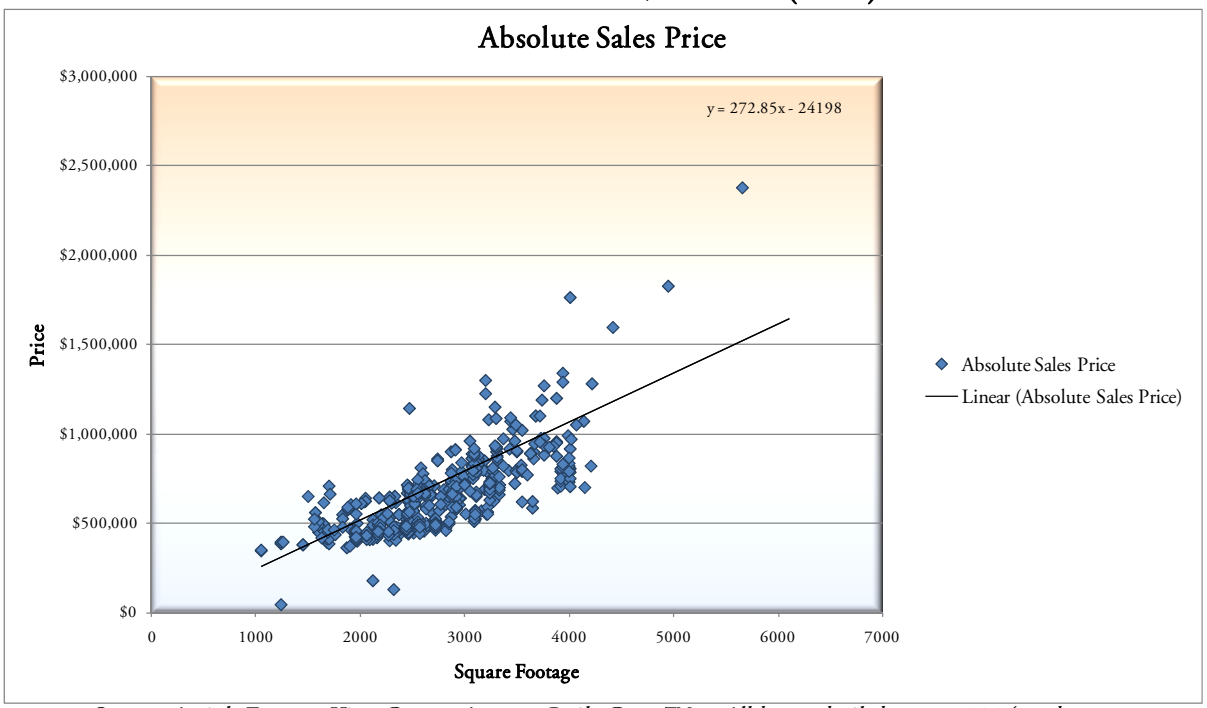
Source: Aerials Express, King County Assessor, Built Green™ -- All homes built between 2004 and 2008

These scatter plots, while compelling, do not show concrete evidence of statistical significance. In order to assess the true monetary value of Built Green™ certifications on Seattle Townhomes, a multiple regression analysis should be undertaken in order to isolate variables associated with a consumer's willingness to pay for certified townhomes. These graphs make the case for positive correlation between certification and sales price; in fact a

simple T-score shows that Built Green™ certification has some effect on sales price at a 95 percent confidence level. Determining the actual effect of these certifications as well as accounting for heteroskedasticity among variances cannot be determined through anything but educated assumptions of correlation as a result of the previous data. Comparing the values of certified and uncertified Seattle townhomes is an attempt at an "apples to apples" comparison of certified and uncertified units in King County as the similar size of the units and the equal distribution among locations should help to eliminate other independent variables (location, finish level, etc.) which may act upon the dependent variable (price).

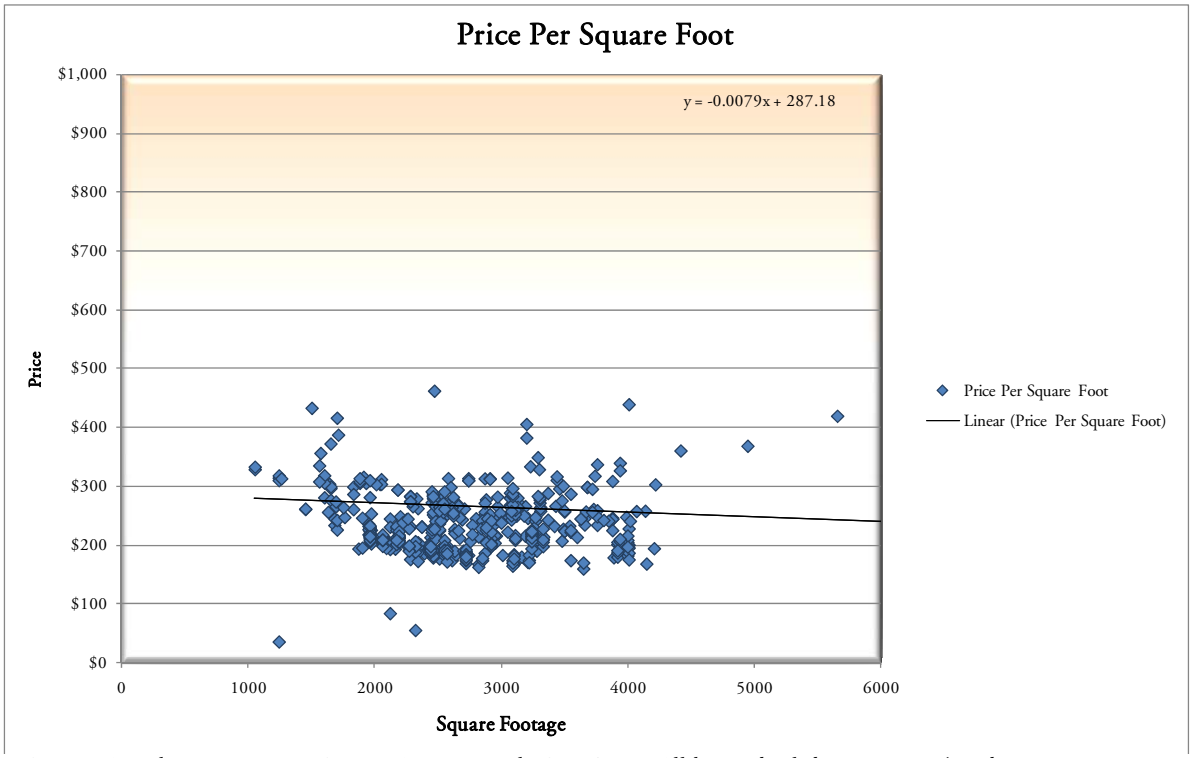
The two sets of East King County scatter plots below show the same independent (square footage) and dependent variables (prices) as the Seattle townhome scatter plots. The first pair of graphs show Built Green™ certified single-family home prices from East King County. These graphs show a similar relationship of prices and square footage. In the first chart, as square footage rises, prices also rise and in the second chart, as square footage increases, price per square foot also decreases albeit at a much flatter slope.

BUILT GREEN™ CERTIFIED SINGLE-FAMILY PRICE EAST KING COUNTY 2007 – 2008 (AUG)



Source: Aerials Express, King County Assessor, Built Green™ -- All homes built between 2004 and

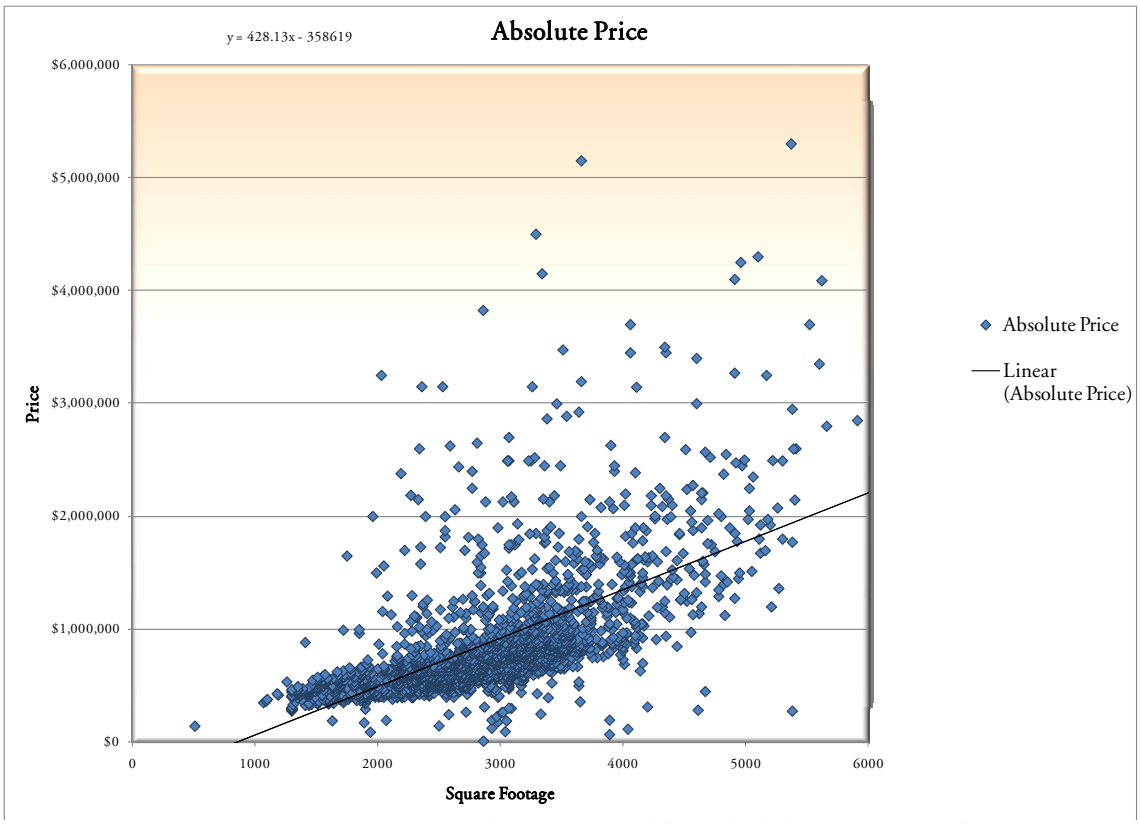
BUILT GREEN™ CERTIFIED SINGLE-FAMILY PRICE/SF
EAST KING COUNTY 2007 – 2008 (AUG)



Source: Aerials Express, King County Assessor, Built Green™ -- All homes built between 2004 and 2008

The next set of scatter plots show uncertified single-family homes in East King County with the same set of dependent and independent variables split into two charts. Both of these charts show incredible variance of each sale from the mean, and in fact, price per square foot shows a slightly negative correlation with square footage. These graphs show the incredible difficulty in producing results which show any meaningful trends along a simple regression line among single-family homes in East King County.

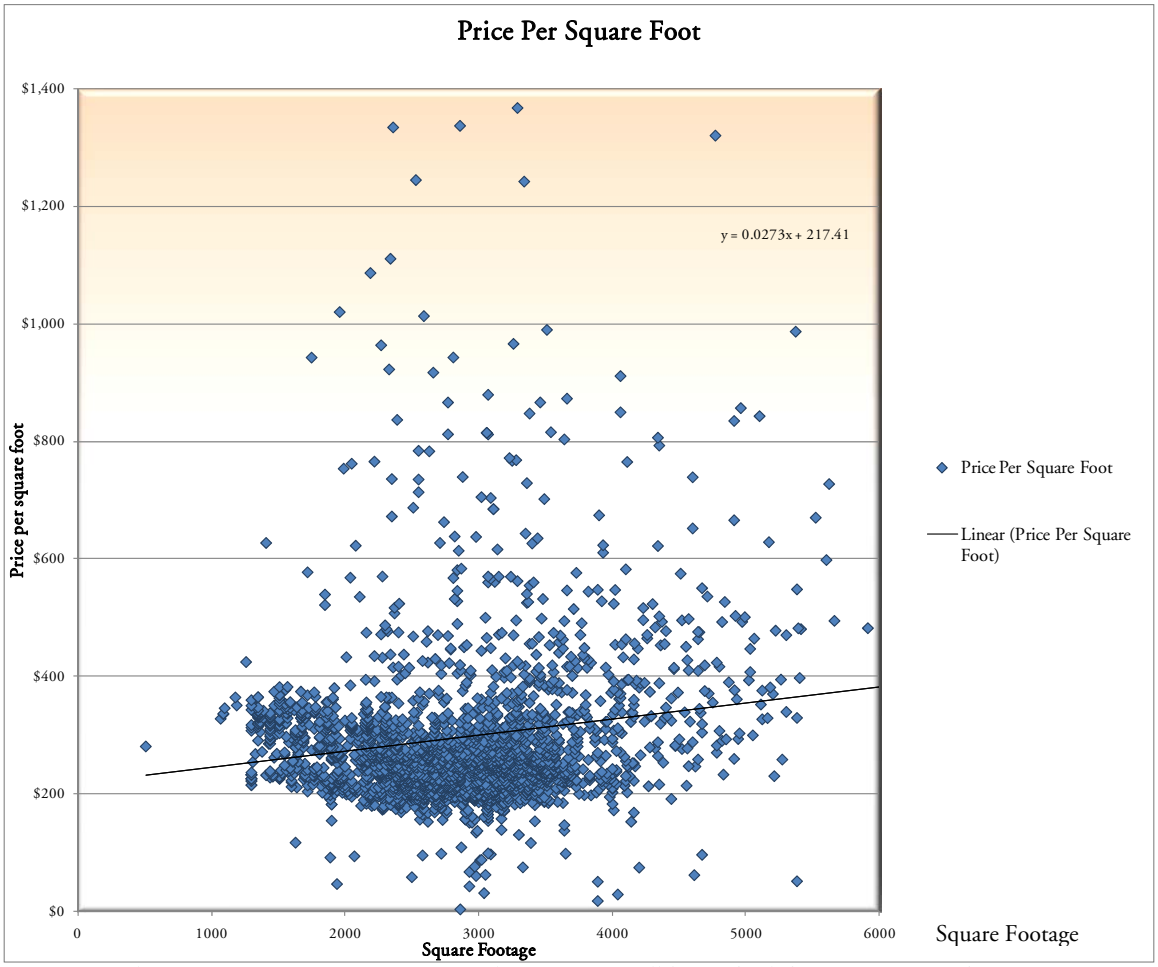
Uncertified Single-Family Price
East King County 2007 – 2008 (AUG)



Source: Aerials Express, King County Assessor, Built Green™ -- All homes built between 2004 and 2008

The outlying variables in these charts are extreme in nature and lend credence to the notion that there are many variables acting on sales prices in East King County, even to the point that trends in price and price per square foot among similar product types do not hold true among the data set. In fact the product type is so dissimilar that typical measures of price do not hold true as a result of the diversity of the sample set.

UNCERTIFIED SINGLE-FAMILY PRICE/SF
EAST KING COUNTY 2007 – 2008 (AUG)



Source: Aerials Express, King County Assessor, Built Green™ -- All homes built between 2004 and 2008

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