Putting a Price on Green: A Review of the Evidence

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• Why ADDING value matters ......
• What is the evidence that going green adds value – results of a research project?
• New Moves ...
• Conclusions
• Building Green /Sustainable buildings may cost more..
• So why should we?
• Only if we enhance return...
• Or lower risk or depreciation
• May be an easy case for an owner occupier...
  – Health and well being; prestige; reputation; longevity
• But more difficult for an investor ...

Why ADDING Value matters
• Investors need:
  – Lower cap rate or/ and
  – Higher rent
  – Better rental growth
  – lower depreciation
  – Less voids

• Occupiers will not wish to bid away revenue gains – so

  *It requires the appraiser/ valuer to reflect through the Valuation*

Why ADDING Value matters
So – what is the link that existing buildings change hands or rent at differential rates depending on their ‘green credentials’?

The Valuer/Appraiser needs evidence

*Primary Role to reflect- not make - markets*
“Assess the evidence base on the contention that there is an observable link between values achieved in the market place for commercial properties and their sustainability credentials”
Figure 9: Attributes Investigated / Terminology Used

Green v Sustainable

Kingston University London
• Much Research links to rating systems
• Most buildings are not rated
• Most have different Grades
• Change over time
• Measure different things
• Voluntary
• Chargeable
• Tend to be new build
• Tend to concentrate on Environmental

Green Star quote business benefits: *green schools save an average of US$100,000 a year - enough to buy 200 new computers or 5,000 new textbooks.*

This makes it hard for the valuer to have full understanding to use for comparability
• Surveys show that many people say they might pay up to 10% premium for LEED/BREEAM

• *But* interviews show that whilst sustainability is desired, traditional selection criteria dominate

• good intentions do not result in good outcomes necessarily!
• Relationships *should* be emerging
• Occupational demand will change over time
• Attempts in Europe to develop investment value show Market Values may *overstate* the worth to investors of non-sustainable stock
• So: *Not* sustainability = more
• But: Non- sustainable should = less!

And in Theory …
Slim pickings – only three major studies – all offices – all U.S

- A hot market could have produced the results
- Rental differentiation occurring - tenants paying less for unsustainable (i.e non LEED rated )
- Effective rental premium of 6% for Energy Star rated stock...no premium observed for LEED – now followed up by study showing what type of occupier seeks green buildings
• The Energy case is ‘there’ in US; far more tentative elsewhere
• Rating systems are variable – and too ‘broad brush’
• Very little known on the Social Case – health & well-being needs to be better understood – in value terms

Conclusions: The energy case is there
Balancing the needs for awareness of sustainability issues with Information for valuers Asks them to consider a range of issues..
How does my subject property compare with comparables? And best in class?

Waste management is critical for shopping centres

Multi-modal transport accessibility – critical for all..

Offices may need to support changing working practices..

Key Questions for Valuers
How far is the building adaptable to climate change? What impact will this have on rental growth?

Climate response will vary from location to location – technology change is key

New style leases for retrofit to support increased investment case

Key Questions for Valuers
Will it be particularly susceptible to future legislation that will impact on demand?

Flood risk moving up the legislative agenda

Increasingly stringent energy performance and Carbon Reduction Commitment

Key Questions for Valuers
Does the sustainability performance matter to the potential occupier or investor?

Impact of Responsible Investment begins to show

A LEED rating matters more for some occupiers than others

Could it drive savings – occupational (running) and ownership (e.g. refurbishment)

Key Questions for Valuers
• Within UK - Sustainable Property Index
• Measures performance of 750 properties
• Only 78 ‘more sustainable’
• First results do not result in differential performance
• Important tracking going forward
• If sustainability matters the markets *should* – in time will – respond
• Energy this is now part of consideration
• We need a wider understanding of sustainability
• Some investors see this ....

*But we need to understand a wider range of sustainability features – and how they impact.*
The Agenda moves on.

Buying into sustainability

*Harms performance*

Buying into sustainability

*Has no effect on performance*

Buying into sustainability

*Enhances performance*

so- where are we now ...