Nils Kok *Sacha Ruland*

**The value of green buildings**

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Written by  Hans van Vinkeveen Thursday, 21 February 2013

**In his research, financial economist Nils Kok uncovers the truth behind the market value of sustainable real estate. The real estate sector is responsible for 75% of global energy consumption. A green energy label can therefore increase the sales price of residential and commercial buildings: “Sustainability really pays, and is the best way to climb out of a recession.”**

Most things only catch on when they pay off. This also holds for what Kok refers to as a ‘love baby’ like sustainability. “Everyone believes in sustainability; everyone is worried about the threat of climate change. But an ideological narrative and mandatory regulations alone change nothing. Energy efficiency has to go hand in hand with financial rewards.” Kok conducts international research on the value of energy efficiency and sustainability on the commercial real estate market. “The market itself is what propels ecological awareness, and that’s far more powerful than any regulation.”

Cost-efficient sustainability is particularly important in the real estate sector, which is by far the biggest polluter of our living environment. “Going green should be good for business. What can sustainability do for me as a company, investor or organisation, and what opportunities does it offer? That’s when it works. We just don’t have all the facts yet.” And that is where Kok comes in. In his research, he links sustainability with the financial profitability of homes, offices and other buildings.

**Financial added value**

One of his most influential studies examines the impact of energy labels. An energy label specifies how energy efficient a building is, expressed in a rating from A++ (green) to G (red). Kok discovered that consumers do pay attention to these labels. “If two identical buildings are up for sale, one with a green label and the other with a red label, there will be a 4% difference in sales price between the two. That’s an average of €8000.” In short, a green label represents financial added value. “So it pays off to improve your home with insulated walls, double glazing and solar panels. You’ll reap the rewards in the form of a higher sales price.”

This is a striking result given the recent criticism of energy labels. Opponents find them too expensive and too patronising, and believe they should be optional. But according to Kok, in practice they already are. “You can have the label withdrawn by a notary. This is an unfortunate clause that was meant to be the exception, but has now become the rule.” Kok compares the situation to that in the United States. “Energy efficiency is not well regulated there and so you see the rise of various market initiatives, like voluntary labels. In Europe, we’re more stick than carrot. And that’s fine. The energy label may not be perfect, but it provides enough information. Enforcing a government finding without testing it on the market first will always be risky.”

**Sustainability and profits**

Another study by Kok revealed that sustainability issues influence investments in commercial real estate. Energy-efficient buildings and buildings near train, bus and subway stations generally bring in higher rental prices. “The rental price drops by about 13% per kilometre from the nearest station. That’s an interesting fact for financers and investors. They see that sustainability performance – reflected, for example, in accessibility – influences the risks and rewards of investing.” To translate his findings to practice, Kok has developed a tool known as GRESB that helps investors integrate sustainability into their investment portfolios and investment decisions. The social impact of this is huge. “With GRESB, we are helping international pension funds, insurance companies and banks gain higher returns on their real estate investments against lower risks.”

According to Kok, sustainability is the best strategy to get through difficult economic times. “People often think that going green is a luxury. When things are going well, we eat more organic food and are prepared to pay more. But what we’ve established is that sustainability really works during a recession, not least because it is strongly correlated with energy consumption.” Increased sustainability also offers a better chance of emerging stronger from a crisis. This is not only true of companies, but also of society as a whole. “A political objective, like realising energy-efficient buildings by 2020, can create an enormous number of green jobs – installing solar panels, fitting smart energy meters and so on. In the US you see all sorts of initiatives to stimulate green investments.”

**User experience**

According to Kok, the real estate sector is starting to realise that energy efficiency is no longer a choice, but a prerequisite for doing good business. But sustainability is about much more than just keeping energy consumption in check. In the near future, he expects that buildings will be approached from an entirely new perspective. “Much more attention will be paid to the user experience. What do the tenants, employees, students, patients and customers want? What type of building guarantees optimum performance in terms of comfort, health, design and location? These are all sustainability factors that can influence wellbeing. We’re heading towards a future in which buildings will be designed to offer the best possible user experience.”

**Nils Kok***(1981) is an associate professor of Finance and Real Estate at Maastricht University and a visiting scholar at the Goldman School of Public Policy at the University of California at Berkeley. Over the past five years he has developed a research strand on the microeconomics of energy efficiency and sustainability in the real estate sector, funded by the Netherlands Organisation for Scientific Research (NWO). Kok is also a co-founder of the Global Real Estate Sustainability Benchmark (GRESB), which tracks and catalogues the sustainability performance of property funds around the world. For more information, please visit* [*www.gresb.com*](http://www.gresb.com/)*.*