

**Obsolescence issues mean green real estate no longer an extra cost but extra value**

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How many property investors know real estate is the main element in two strategic planetary challenges: energy supply security and climate change? How many know that in Europe, real estate represents 40% of energy consumption and 36% of greenhouse gas emissions, much more than manufacturing? If most do not know those challenges and figures, politicians are well aware that real estate is the main sector to be mobilised to meet, by 2020, the ambitious objectives of the 20-20-20 European Union Energy and Climate Change Policy. For the whole economy in comparison with 1990, the EU now aims for a cut of 20% in greenhouse gas emissions and in energy consumption - and a rise in the proportion of renewable energy in total consumption to 20% from 8.5% today. The driver is political. The EU's new Energy Performance of Buildings Directive, approved by the European Parliament in May, stipulates that all new buildings must be nearly zero-energy and zero-carbon in 2020, progressing over a number of intermediary steps. In France next year, a new law stipulates cuts permissible emissions for new non-residential buildings by 50%.

Each country will define objectives for existing stock. The French National Assembly, for example, decided that energy use must fall by an average 38% by 2020 in all real estate. In 27 European countries, all advertisements to rent or sell must soon include energy and CO<sub>2</sub> performance of a property – and consumption and emissions will be controlled. The UK's new Carbon Reduction Commitment forces the 5,000 main private and public owners to submit their energy consumption to a public body for surveillance; results will be published, along with owners names, and a tax will penalise the laggards. In France, energy consumption and CO<sub>2</sub> emissions will be controlled through Energy and Climate Territorial Plans, which will be compulsory for all regions, local authorities, and cities of more than 50,000 inhabitants. Such policies create an automatic mechanism for obsolescence; it is clear that green buildings' obsolescence will be much slower than non-green.

These very rapid changes are crucial for property investors to take into account; yet most do not realise the challenges because, for the moment, the market is blind. Former World Bank Chief Economist Nicholas Stern, in his Economics of Climate Change Review published in 2006, wrote: "Climate change is the greatest and widest-ranging market failure ever seen." In fact, the market is waking up; but it is occurring much too slowly. In the Paris region, the sustainable building qualification High Environmental Quality is now market standard for new offices, and 75% of new build in 2012 will be HQE certified. In the US, the only market where several hundred energy and environmentally certified offices – via Energy Star and LEED labels - have been rented and in some cases re-sold, the market is already giving signals. Three recent studies provide interesting data to reach a firm conclusion: green buildings rents, occupation rates and transaction prices are higher for certified properties than for comparable non-certified. For Piet Eichholtz and Nils Kok of Maastricht University, and John M. Quingley of University of California, Berkeley, the average difference is 3% for rents, 6% for income, and 16% for transaction prices. According Franck Fuerst and Patrick McAllister, Henley Business School/University of Reading, the difference is 6% for rents, and 31% to 35% for prices. Another study by Norm Miller, Burnham-Moores Center for Real Estate, University of San Diego, and Jay Spivey and Andy Florance, Research Director and CEO of CoStar, found a transaction price difference of 6% for Energy Star-certified buildings

and 10% for LEED buildings. Within two years, such research will be available for European market. Property investors right now should anticipate the beginning of proof of 'green value' which will be clearly reinforced by the EU policies. The conclusion is apparent: Sustainable and energy efficient real estate is no longer an extra cost but an extra value. jc

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