Green commercial, logistics properties’ valuations more resilient: IREUS

Green buildings play a key role in slowing global warming, and there’s an economic case for such assets

By Fiona Lam
fiolam@sph.com.sg
@FionaLamBT

Green data centres posted a 2.8 per cent increase in values in FY2020, while those without certification clocked a 4.2 per cent rise. Lee Nai Jia, deputy director of IREUS at the National University of Singapore, said that at the moment, there are not many data centres with green certification, especially those that are outside Singapore. "Hence, the higher valuations may reflect the market conditions in countries without green certification schemes, which may have skewed valuation trends in countries offering such schemes for data centres," he added.

For example, in the retail sector, values declined by an average of 1.6 per cent in FY2020 for green properties, markedly less than the 5.5 per cent decrease for those without any green certification. Business parks saw values grow by 2.8 per cent for green-certified buildings, in contrast to a 0.4 per cent dip for the others. Some asset classes that thrived during the pandemic, such as logistics properties, also performed better when it came to green buildings versus non-green ones.

Green logistics and warehouse assets on average enjoyed a 12.7 per cent jump in valuations, a far cry from the 4.9 per cent uptick for those without a green label. However, in what appears to be a departure from expectations, data centres and light industrial buildings that are not green-certified actually did better than their counterparts.

As for light industrial buildings, green ones saw values fall 4.8 per cent, as opposed to a 6.6 per cent growth for the rest. Dr Lee noted that expiring land tenures may have contributed to the decline in valuations of environmentally friendly, light industrial buildings, especially sites with fewer than 40 years remaining. "On the whole, the values of commercial buildings with green certification seem more resilient during the pandemic. Given the uncertainty arising from geopolitical tensions and rising energy costs, these buildings are anticipated to do better than their counterparts that are not green-certified, as their energy savings will be higher," he added.

Construction and the built environment are responsible for 39 per cent of all carbon emissions worldwide, with operational emissions from energy used to heat, cool and illuminate buildings accounting for 28 per cent, non-profit World Green Building Council has said.

IREUS noted that against the backdrop of such a substantial carbon footprint, green buildings play a key role in slowing global warming, and there is also an economic case for such assets.

One of the earliest studies on the price premiums of environmentally sustainable properties was a paper in 2010, titled Doing well by doing good? Green office buildings, published by the American Economic Association. The researchers found that US office buildings with a green rating commanded a premium of above 7 per cent in effective rents, while the selling prices of green buildings were higher by about 16 per cent.

A June 2021 report by JLL noted that 7 in 10 corporations in Asia-Pacific were willing to pay higher rents to lease sustainability-certified buildings in the future. Also, the majority of corporate occupiers currently leasing space in a green building were paying 7 per cent to 10 per cent more rent, JLL said.