Multiple Benefits of Energy Efficiency

Asset Values

Why is energy efficiency important for asset values?

Energy efficiency can **increase the value of assets**, such as homes, buildings or equipment, and lead to lower vacancy rates and longer equipment lifespans.

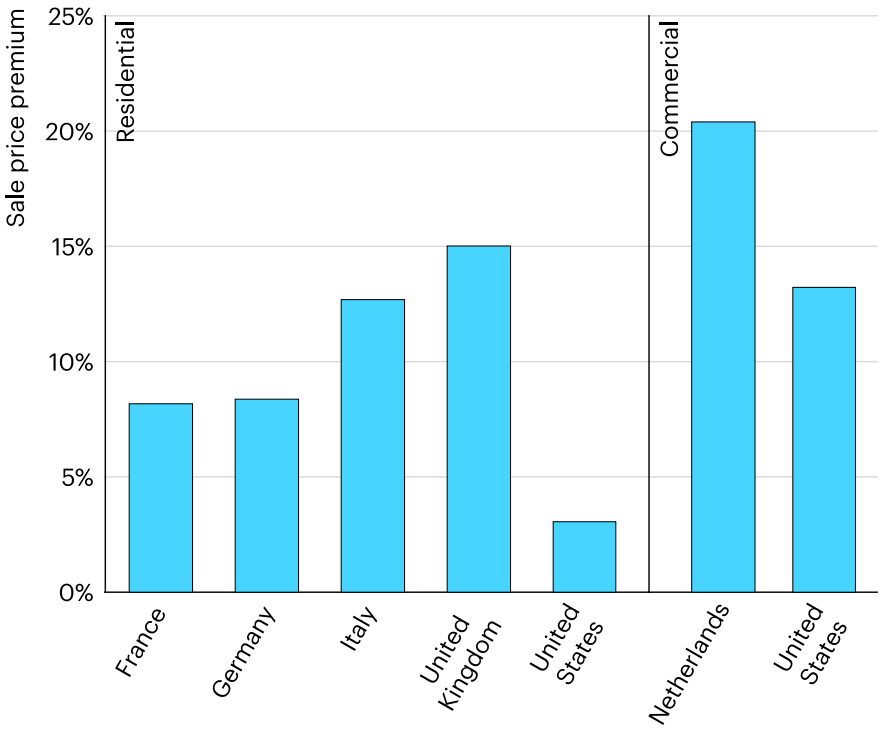
- Energy efficient buildings can command a **premium on sale and rental price** in both the residential and commercial sectors.
- Studies show that sale price premiums for energy efficient buildings range from **3% to 15% in residential buildings and 13 to 20% in commercial buildings**.

Key analysis

Studies show that individuals and businesses are willing to pay a higher rent and/or sales price for property with improved energy performance, such as that expressed in energy performance certificates. Evidence from the United States and Germany suggests that sales price premiums are about twice as high as rental price premiums.

Meanwhile, in the industrial and utility sectors, energy efficiency measures can increase asset values by improving productivity, reducing wear on equipment, and extending the operational life of machinery and infrastructure.

Sale price premium for residential and commercial buildings in selected markets



Notes
The European Union and United Kingdom use a scale from A to G on the energy performance certificate (EPC). The results are based on the following studies and assumptions. France: Zitouni, S., (2024), (B vs D EPC rating); Germany: Amaral, F. et al., (2024), (A compared to D-E EPC rating); Italy: Loberto, M. et al., (2023), (A compared to D EPC rating); United Kingdom : Perez, H., (2024), (B compared to E EPC rating); United States residential: Pigman, M. et al., (2022), (6 steps on Home Energy Score, about equivalent to A to E on EU EPC); The Netherlands: Eichholtz, P. et al., (2024), (above compared to below C EPC rating after announcement that all office buildings over 100m² have to be C rated or above); United States commercial: Eichholtz, P., (2013), (ENERGY STAR or LEED certification).

A closer look at rental properties

While sale and rental price premiums are positive impacts for building owners, it is important to also consider the effect energy efficiency improvements have on building occupants or renters. Increasing the quality of a rented space through energy efficiency can achieve increased thermal, noise and light comfort; improved health, safety and security, and reduced energy bills and operational costs. These benefits can result in improved tenant satisfaction and improved ability to rent the space.

Rent increases associated with the retrofit should be in line with energy cost savings to maintain affordability. Policy tools, such as mandatory energy performance ratings, financial incentives and tenant protections, can help ensure that asset value gains benefit both owners and occupants, especially vulnerable groups such as low-income households.

Meanwhile, a landlord may be hesitant to invest in new energy efficiency equipment, as they are responsible for the capital cost, while the tenant is the one benefiting from lower energy bills. This is often known as a "split incentive." However, evidence from the United States suggests that energy efficiency improvements are associated with reduced vacancy and tenant turnover, which reduces associated transaction costs and provide an incentive for landlords to invest.

Need more information?

Eichholtz, P. (2024), The Impact of Minimum Energy Performance Standards on the Commercial Real Estate Market.
Zitouny, S. (2024), On the capitalization of energy labels on the French housing market.
Amaral, F. et al., (2024), Green Signals: Energy Efficiency and German Housing Markets.
Pigman, M. (2022), How Does Home Energy Score Affect Home Value and Mortgage Performance?.