Green Hotel Lawyer: Green Hotel economics 202 B. New study finds 31% price premium for green buildings.

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**Hotel Lawyers with a serious new study documenting pricing premiums for GREEN hotels.** At least for new construction, properly planned from the outset, there is little or no additional cost for building to LEED certification standards (for example, see my Cornell Hospitality Quarterly article entitled “The Compelling Hard Case for Green Hotel Development.”).

Even the myth that luxury hotels cannot be sustainable has been shattered with beautiful luxury hotels gaining LEED certification, like Montage Beverly Hills recent award of LEED Gold certification.

And just a few days ago, my friend Meng Li, a LEED AP whom I met through JMBM’s 2008 Hotel Developers Conference, sent me a copy of a new study published by two professors at the University of Reading, documenting a very strong economic premium in both rental income and asset prices (sales price) for green buildings based upon data from 553 green projects. The numbers may even amaze you (more than a 31% value premium).

**The Green Network of Helpful People**

It is amazing! The green network is fantastic, and JMBM’s hotel lawyers are proud to be a part of it. You can find a lot of other players and resources on [www.HotelLawBlog.com](http://www.HotelLawBlog.com) on the topic of Green Hotels.

In fact, Meng Li, the LEED AP I mentioned, was one of the people I met at our 2008 Hotel Developers Conference. Meng is working with a specialty technical services firm that provides energy efficiency solutions for new construction and major renovation. He is also a research associate at the Center for Energy and Environmental Research (CIDEA) at the Universidad Tecnológica Nacional in Argentina, where he specializes in feasibility analysis of sustainable building developments, especially LEED certified buildings.

**A new study with empirical evidence of rental and asset sales premiums for GREEN buildings.**

This study has all the makings of a real landmark and a turning point in how private capital views the value of green buildings — or rather a turning point in **recognition** of the values already being ascribed in the market place. Adam Smith likes green buildings!

The paper seeks to provide empirical evidence on the price differentials — both rentals and asset sales price — between LEED/Energy Star Properties and Noncertified Commercial Buildings in the United States.

“Green Noise or Green Value? Measuring the Price Effects of Environmental certification in Commercial Buildings” was published by Franz Fuerst and Patrick McAllister, through the auspices of the School of Real Estate and Planning, Henley Business School, University of Reading. It was based upon a large set of data provided by the CoStar Group. A copy of...
Here are a few observations about the study and its background observations:

The 40 pages of this scholarly analysis can be a bit daunting, but the highlights are easy to grasp:

- Buildings account for more than 20% of greenhouse gas emissions
- Many governments have mandated better environmental practices
- Voluntary environmentalism is also being driven by market-based economics
- Price signals are central to the operation of markets providing the information basis for the allocation of resources
- There is a frustrating shortage of empirical data on the economic value of green buildings
- In this empirical analysis, LEED- and Energy Star-certified buildings were compared to a sample of noncertified buildings in the same metropolitan areas

RESULTS:

The study included data on 110 LEED and 433 Energy Star properties and thousands of noncertified properties. Here are the results:

- LEED and Energy Star certified buildings have rental premiums of 10% or more
- LEED and Energy Star certified buildings have a 31% or more transaction price premium
- The higher the energy efficient rating, the greater the premium for both rentals and transaction prices

The study did not establish whether these premiums are due to “the benefits of a better image, higher productivity or lower operating costs.” The authors also note that the observed premiums may be due to short-run imbalances of supply and demand for energy efficient buildings. Still, when the short run imbalance of demand is met, won’t there be a functional obsolescence and corresponding discount for non-energy efficient buildings?

For the complete study, click here.

To follow what is going on in the hotel industry with sustainability, be sure to subscribe to Glenn Hasek’s GreenLodgingNews.com. I like to follow the News and Features on the site.

This is Jim Butler, author of www.HotelLawBlog.com and hotel lawyer, signing off. We’ve done more than $87 billion of hotel transactions and more than 100 hotel mixed-used deals in the last 5 years alone. Who’s your hotel lawyer?
information, please contact **Jim Butler** at jbutler@jmbm.com or **310.201.3526**.

Jim Butler is one of the top hospitality attorneys in the world. GOOGLE “hotel lawyer” or “hotel mixed-use” or “condo hotel lawyer” and you will see why.

Jim devotes 100% of his practice to hospitality, representing hotel owners, developers and lenders. Jim leads JMBM’s Global Hospitality Group® — a team of 50 seasoned professionals with more than $87 billion of hotel transactional experience, involving more than 3,900 properties located around the globe. In the last 5 years alone, Jim and his team have assisted clients with more than 100 hotel mixed-use projects — frequently integrated with energizing lifestyle elements.

Jim and his team are more than “just” great hotel lawyers. They are also hospitality consultants and business advisors. They are deal makers. They can help find the right operator or capital provider. They know who to call and how to reach them.

Contact him at jbutler@jmbm.com or **310.201.3526**. For his views on current industry issues, visit [www.HotelLawBlog.com](http://www.HotelLawBlog.com).