Report to be Submitted to the Hong Kong Institute of Surveyors (HKIS)

The Relationship between Green Certified (BEAM Plus) Buildings and property price in Hong Kong

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Executive Summary

With the popularization of the notion of sustainable development since the early 1990s, demand for goods and services which emphasize lower environmental impacts has soared, and accordingly an expanding market for eco-friendly products (and services) on a global scale. This suggests that there exists a willingness-to-pay (WTP) premium for these products over regular products.

In the construction industry, this takes the form of "green buildings," which stress better environmental performance (or lower operating costs due to reduced energy/water consumption). Yet, for stakeholders such as potential tenants and investors, the actual environmental performance of these buildings is very difficult (or too costly) to discern. In light of this issue, a variety of voluntary green building certifications that provide a standardized, universally-recognized, and much more cost-effective way to identify quality and efficient buildings have been established. Within the context of Hong Kong, BEAM Plus, in many ways compatible to international green building labels such as LEED and BREEAM, is one of those certifications.

On the other hand, due to 1) higher cost in employing skilled labour for the production of innovative and high-performance construction materials; and 2) higher life-cycle energy consumption as a result of higher embodied energy in the production of these materials, it costs more to develop green buildings. One important question arises as to whether there exists a WTP among occupiers and/or property investors for space within certified green buildings that is sufficient enough to cover the higher construction cost. This study, as a response to this question, aims to investigate the relationship between the transaction price of flats in selected residential property developments and BEAM Plus certification.

Our findings show that homebuyers are willing to pay a price premium from 3.0-5.1% for buildings with BEAM Plus certification; and that flats within buildings that have obtained an unclassified rating under BEAM Plus are sold at a discount (5.8-6.1%). With the additional cost at around 2%, the price premium as a result of BEAM Plus certification, as

identified in this study, suggests that developers may find it profitable, or at least financially viable, to “go green” in response.

Nevertheless, the findings in this study have some implications regarding the HKSAR government’s GFA concession policy. As the development project’s actual rating in its BEAM Plus assessment is not considered in the Building Authority’s decision to grant GFA concessions, as long as it has been assessed under it, this, hence, provides a loophole for some developers to exploit for additional profits, in that they could simply complete the registration and the provisional assessment under BEAM Plus in exchange for the GFA concessions, without necessarily committing themselves to the construction of buildings with better environmental performance. Yet, the negative price effect of the unclassified rating under BEAM Plus indicates that, despite the additional GFA gained by means of BEAM Plus registration (and assessment), the decision to “go green” for the concession alone may not turn out to be a wise business decision once factoring in the extra cost involved in the construction of green buildings.