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New Research Reveals Energy Efficiency Is Priced Into Rents… But Not Yet Into Property Values

3 months ago

New research from Building Atlas reveals a striking mispricing in the UK commercial real estate market: while energy-efficient office buildings command higher rents and lower vacancy, this performance advantage is not yet reflected in sales prices.

The report, Green for Rent, Not for Sale, finds that prime London offices with stronger EPC ratings achieve measurable rental premiums at approximately 4% higher rent per upward step in EPC rating, and benefit from stronger occupier demand. However, transaction data shows no statistically significant sales premium for higher EPC-rated office assets.

“This creates a clear disconnect between operational performance and capital valuation,” the report concludes. “In theory, higher income should translate into higher asset values. In practice, that link has not yet fully formed for energy-efficient buildings.”

A Temporary Market Distortion

Using London lease and transaction data from CoStar and Estates Gazette, Building Atlas identifies several reasons for the lag in sales pricing:

● Data lag: Efficient assets are newer and have limited trading history.

● Valuation inertia: Appraisals rely on legacy comparables that underweight operational performance.

● Policy uncertainty: Shifting timelines around UK Minimum Energy Efficiency Standards (MEES) create hesitation among buyers.

The report argues that this misalignment represents a temporary market distortion rather than a structural flaw.

A Potential Valuation Gap

To illustrate the impact, the report models a 50,000 sqft Central London office upgraded to EPC B. A modest £50,000 uplift in annual net operating income (NOI) combined with a 50 basis point compression in exit capitalisation rate increases exit value by more than £8 million (a 12.8% difference).

Yet current market pricing rarely captures this uplift.

A Strategic Inflection Point for Owners

With approximately 73% of London office stock rated EPC D or lower, the majority of the market remains exposed to tightening standards and rising transition risk. At the same time, climate volatility, from extreme heat to urban flooding, is sharpening the financial relevance of resilience, insurance exposure and long-term asset strategy. At a time when the UK is facing dozens of active flood warnings across the country, the economic case to take action is increasingly tangible.

“Future-proofing a portfolio today means understanding far more than just current income,” said Nick Taylor, CEO of Building Atlas. “You need a clear view of how decarbonisation, regulatory trajectory, climate resilience and insurance risk affects value. Those who take that broader, intelligence-led approach will move from reactive compliance to strategic advantage.”

As disclosure improves and higher EPC-rated buildings trade more frequently, the report anticipates that capitalisation rates for proven efficient assets will tighten, aligning valuations with leasing performance.

“Efficiency is still the last untapped yield play in real estate,” the report concludes. “The question is not whether markets will price it in, but who will move first.”

Green for Rent, Not for Sale can be downloaded via the Building Atlas website:
www.buildingatlas.io/research-green-for-rent