

Buildings and their operations are responsible for roughly half of all greenhouse gas emissions from Canadian urban centres. Despite this large number, building owners have failed to adopt the well-developed and cost-saving green building technologies which offer an ideal solution to this problem. This is due to market failures created by the tendency for energy efficiency information to be hidden in real estate transactions: uncertainty about the market performance of energy efficient buildings, lack of consumer awareness of energy efficiency, and the misallocation of incentives.

Energy disclosure policies that require commercial building owners to publicly disclose their annual energy use and offer the ability to make energy use transparent in the marketplace. Disclosure allows decision-makers such as owners, prospective buyers and lenders to incorporate energy information into investment and consumption decisions, therefore establishing a market signal that increases consumer demand for efficient buildings.

This study analyzes whether empirical evidence validates this theory by comparing the financial performance of buildings between a market where disclosure policies have been in place for nine years (New York City) to one where it hasn't (Toronto). LEED certification is used as a proxy for energy efficiency in this study, and the sample size includes: 100 buildings in the Toronto market and 224 buildings in the New York City Market. Hedonic models are applied to each market to determine the correlation of certification is with the following financial metrics: rental rates, occupancy levels, and assessed building value.

The results show that in Toronto, LEED certification is correlated with 18% lower rental rates, 20% higher assessed building values, and an 8% decrease in occupancy rates. In New York City, LEED certification is correlated with a 28% premium in rental rates, a 0.8% increase in building value, and a 40% increase in occupancy levels. The results show that green buildings do perform measurably better relative to conventional buildings in New York City in terms of these financial metrics. However, the findings were not statistically significant. This study points to the need for more research on the effects of this nascent but promising, cost-effective, and city-driven public policy tool.