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# The LEEDing Attraction to the BEST

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*Exploring the attraction to certified, sustainable commercial office space in downtown Toronto, Ontario, Canada*

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## Abstract

In light of growing awareness of the socioeconomic and environmental benefits associated with the design of the built environment, sustainable building construction and assessment methods are becoming increasingly more relevant and important in Canada's real estate markets. Investors, developers, contractors and tenants are realizing that the integration of green building practices into their real estate assets can significantly reduce energy use, greenhouse gas emissions and waste streams, and can also yield significant economic returns (Eichholtz et al, 2010; Fuerst, 2009; Kats, 2003; Pivo, 2008). To understand how green buildings can successfully penetrate the commercial market in Canada, it is important to understand the forces of attraction to these environmentally certified properties.

The present study was conducted to determine if environmental certification had a statistically significant impact on the market value of commercial office buildings in downtown Toronto, Ontario. Based on a review of the literature, building variables that were expected to have an impact on market value (net rents and capital value), such as total office area and vacancy rate, were compiled for 113 properties, 63 of which had achieved environmental certification through either BOMA BEST or LEED rating systems. Using a variation on the hedonic price model and in applying ordinary least squares (OLS) regression, the author sought to assess if a relationship existed between environmental certification and net rents and capital values. Net rental rates and capital values (\$/ft<sup>2</sup>) were extracted from a private IPD database for December 2014 and for 12-quarter averages ranging from December 2011 to December 2014.

The results of this study demonstrate that properties that achieved environmental certification commanded rental rates that were, on average, 32 percent higher than control buildings ( $P < 0.10$ ). The hedonic regressions on capital value also indicated an elevated green premium ( $P < 0.05$ ) and suggested that environmental certification is more closely correlated with capital value than with rental rates. While the

findings of these models provide limited generalizability to real estate markets beyond Toronto and beyond the current timeframe, they provide motivation for additional research to address how the green premium might be priced in other environments as a function of both location and time. Furthermore, the results demonstrate that green building practices are strongly valued in Toronto's current real estate market, and that perhaps there exists a sophisticated future for the development of sustainable and healthy urban landscapes.