Pricing in the green gap

As environmental metrics move beyond branding toward verifiable benchmarks, investors must look to concrete metrics and regulatory certainty to capture value, writes Barclay Ballard

Sustainability is becoming embedded in residential real estate investment as regulators, lenders and institutional investors prioritize energy efficiency, carbon performance and long-term climate resilience.

For residential assets, environmental credentials no longer simply impact branding or compliance but are influencing everything from financing costs and valuation to operating expenses and exit liquidity. As always, the devil is in the detail.

As reported by industry body the Royal Institution of Chartered Surveyors, energy efficiency is not consistently reflected in residential prices. While properties with an EPC A rating boast a 2.9 percent premium per square meter relative to EPC D properties, those with B and C ratings traded at only modest discounts.

With the market grappling with uneven standards, data gaps and concerns around stranded assets, questions about how green premiums are being priced into residential portfolios are growing louder.

"The evidence is limited, but we are starting to see tenants asking about EPC ratings and energy performance when they undertake viewings," explains James Whidborne, head of residential fund management at asset manager Edmond de Rothschild REIM. "Our modern, energy-efficient buildings are proving easier to let. Energy performance and efficiency have a bearing on our residents' cost of living. So, with time, there will undoubtedly be a premium, higher occupancy and higher valuations."

Widespread enthusiasm around sustainable assets suggests green housing warrants serious consideration, but investors should be wary of assuming that higher standards automatically equal higher returns.

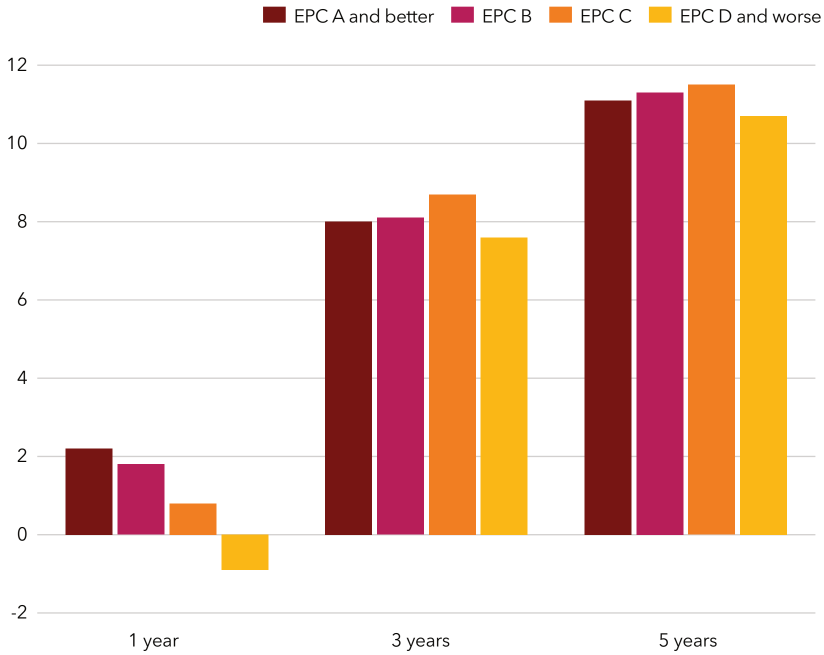
One way for investors to gain greater confidence in the value of their residential assets and green building improvements is to ensure the right metrics are underscoring their environmental claims. Selecting these metrics may not be straightforward, however.

Craig Morey, climate lead, real estate at asset manager Schroders Capital, says: "Confidence is growing, but data quality is still the central challenge, and transparency is the answer. Performance reporting needs to be anchored in measured, in-use data rather than design-stage assumptions, whether the asset is a UK residential portfolio or a London office. Investors are no longer willing to take sustainability claims on trust."

Whether higher EPC ratings or lower carbon emissions, environmental indicators can play a major role in driving up housing valuations. In 2025, the GRESB Residential Assessment found that as many as 91 percent of residential portfolios worldwide now incorporate sustainability-linked provisions in their lease agreements. However, the size of the global residential market can make evidencing sustainability challenging.

Stéphanie Bensimon, head of real estate at private market equity investment firm Ardian, explains, "In

More energy-efficient residential properties saw higher annualized total returns, but not by a huge margin (%)



Source: MSCI Netherlands Annual Property Index

residential portfolios – which can comprise hundreds or thousands of individual units – the challenge is amplified by the volume and heterogeneity of the asset base."

Regulation and reporting

There are also shifts in reporting requirements across municipalities for real estate investors to consider when weighing green building improvements across residential portfolios. In the UK, for example, the way EPC standards are calculated is set to change from October 2026, encompassing four new primary metrics, as well as secondary ones around energy demand and carbon levels.

"Regulation is tightening at different speeds and that itself creates opportunity," says Morey. "For residential, careful consideration also needs to be given to local regulations that are shifting to further protect residential tenants from rent increases. In the UK, legislation such as the new Future Homes Standard, which was published earlier this year and comes into force in March 2027, aims to deliver new homes that achieve net-zero carbon emissions."

As well as compliance standards varying by geography, there are also voluntary standards to consider. For instance, real estate services provider Savills reported in a July 2025 blog post that the voluntary Passivhaus standard can deliver premiums of up to 5 percent for experienced homebuilders. Between popular BREEAM, LEED, HQE, GRESB and the EPC ratings, there are a plethora of standards – mandatory or not – for investors to weigh.

Bensimon adds: "There is currently no market-wide standard for valuing the positive impact of sustainability initiatives on a residential building's profile."

And while EdR's Whidborne argues that "the valuation gap between energy-efficient buildings and non-compliant buildings is growing," this does not mean that factoring ESG performance into underwriting and exits is getting any easier.

Granular assessments of EPC ratings across a portfolio and a cost-benefit analysis of retrofitting individual buildings can help, of course, while, on the exit side, a comprehensive set of climate-related data points may support the integration of climate considerations into residential valuations.

"ESG has long been a consideration in residential real estate, but increasing sophistication in data, tools and regulation is making its integration more systematic and evidence-based," agrees Bensimon.

The narrative around green housing is no longer about qualitative considerations, but about being driven by hard pricing and the accuracy of the underwriting. For investors today, the challenge lies in moving past broad labels to embrace the granular metrics that will define value in an increasingly climate-conscious market.

"To make pricing fully consistent, the industry needs wider adoption of energy-in-use measurement, greater transparency across the value chain and continued regulatory clarity so capex and obsolescence risk can be priced with confidence," argues Morey. ■