

Pricing Sustainability in a DCF-Framework

Bachelor Thesis
in
Real Estate Finance

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Executive Summary

Sustainability has become to an important trend in real estate markets. Considering the high amount invested in real estate and the high contribution of housing on greenhouse gas emissions, the rising demand for low energy consuming houses is nothing astonishing. Several studies around the world show significantly higher prices paid for sustainable property. This lets the question arise what value drivers are standing behind such a higher appraisal of sustainable real estate. This thesis will analyze sustainability in the context of the discounted cash flow (DCF) approach. In a first step, the most common valuation methods are presented and evaluated on their practicability to account for sustainability features. A strong focus will be given to the DCF approach. In a second step, sustainability is characterized and economic implications of such characters are derived. The sustainability characterizations are then further examined on how they could be included in a DCF valuation, and if existing empirical evidence can ensure its effect on the real estate value. The thesis ends with a systematic concept of assessing sustainability features on their applicability in a DCF-valuation.