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The path to properly reflecting decarbonization efforts in Canadian CRE valuations

New standards and frameworks are emerging to reflect decarbonization in Canadian CRE valuations, as ESG factors reshape the industry.

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Key highlights

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- Canada is in the early stages of developing a framework of methodologies, best practices, and standards to measure decarbonization in buildings
- A key catalyst behind the push to develop a standard decarbonization valuation methodology is a new directive from the International Valuation Standards Council (IVS)
- One impediment is that Canada does not yet have a strong building rating system for decarbonization
- The appraisal industry is beginning to incorporate checklists into the valuation process to help track where properties are in their decarbonization journey
- The path forward will require appraisers to collect data on premiums paid and values assessed to properties with specific features, such as electrification, rooftop solar, improvements to the building envelope, and other features
- Canada could very well introduce new decarbonization valuation standards relatively quickly

Measuring decarbonization efforts in Canadian CRE valuations: A path forward

Putting a dollar value on a building's decarbonization achievements has been a tough puzzle to solve for appraisers and the broader CRE industry, but it's a challenge that has

now moved to the forefront for the Canadian real estate market.

A key catalyst behind the push to develop a standard methodology is coming from the International Valuation Standards Council (IVS). The IVS announced in January 2025 that it is now incorporating ESG factors into valuation practices. The Council, which develops and sets international technical and ethical standards for valuations, acknowledged the growing importance of sustainability and governance factors in asset valuation and directed valuers to consider ESG criteria in their approach. Although the Canadian Uniform Standards of Professional Appraisal Practice (CUSPAP) do not specifically follow IVS, this international best practice is very likely to make its way to the Canadian market.

Certainly, a big part of the “E” (in ESG) is decarbonization, figuring out how to measure decarbonization in property valuation is now a priority for Canada. But while that directive is an important first step, the critical task ahead is the “how” and the need for real estate market participants and key stakeholders to come together to develop a standardized framework and best practices for accurately measuring the value premium created by decarbonization.

Overcoming market challenges

Decarbonization has been gaining traction across the international commercial real estate industry on a variety of fronts. Owners that see the merits are choosing a proactive approach to improve sustainability and reduce emissions, while others are being pulled along by a changing regulatory environment. However, an important missing piece has been the impact such efforts have on property values.

To date, it has been easier for valuers to assess a “brown discount” for buildings that face significant capex to make needed energy-efficient improvements, particularly as it

relates to meeting new regulatory or building code requirements. It has been more difficult to accurately and consistently determine a dollar value for a “green premium” to credit achievements in furthering decarbonization and net-zero goals.

One barrier standing in the way of measuring the value of decarbonization is that appraisers are not market makers. Appraisers observe the market; analyze the market; and try to reflect the market in their valuations. “It’s not our place to say a purchaser or seller should be making price adjustments for decarbonization in buildings. It’s our place to observe when that starts to happen, and make the appropriate adjustments in our own valuations,” says Jonas Locke, Head of Valuation Advisory for Altus Group in Canada. “A big barrier for valuers is that the market has been relatively slow to come to terms with decarbonization – and to start adjusting pricing accordingly in acquisitions and dispositions,” he says.

Another impediment is that Canada does not yet have a strong building rating system for decarbonization. Although LEED certification is a common benchmark for sustainability, ratings are more holistic rather than singling out decarbonization. The US Green Building Council recently introduced Zero Energy and Net Zero Carbon classifications for buildings. However, it is still difficult to compare and contrast two Net Zero Energy and Net Zero Carbon buildings that may have different components influencing carbon emissions, such as electrification, solar upgrades, or building envelope improvements.

A third challenge that needs to be addressed is increasing training and education for appraisers to fully understand green buildings and better measure the investments made in decarbonization.

Developing valuation methodologies

Canada is in the early stages of developing a framework of methodologies, best practices, and standards to measure decarbonization. What does that path forward look like? First, it involves a collective effort that includes various industry groups working with both public and private sector interests. REALPAC, the Canada Green Building Council, and the PLACE Centre at the Smart Prosperity Institute are among those groups that are taking the lead.

“There are many of us in the appraisal industry in Canada that are trying to organize ourselves around this topic of how do you appropriately measure decarbonization in particular, as well as other elements of ESG in our valuations,” says Locke. Although developing a methodology is in its early stages, Locke also expects standards to emerge relatively quickly.

Key questions now being addressed include:

- How do we organize the Canadian appraisal industry around decarbonization?
- How do we build a methodology and create standards that everyone can agree to and follow?
- How do we better train and educate appraisers on valuing decarbonization?
- How do we communicate and inform the broader CRE industry on new standards?

As one of the largest commercial valuation companies in Canada and with deep relationships with institutional real estate owners, Altus is actively at the table and involved in those discussions and sharing ideas. “Where we’re at right now is getting together as an industry to build a methodology around valuing decarbonization in buildings, which makes this a really interesting time for the appraisal industry,” says Locke.

From risk assessment to value creation

The building sector’s operational emissions comprise about 18% of Canada’s total emissions. So moving to net-zero

buildings can have a real impact on reducing overall emissions. One of the drivers behind decarbonization for building owners has been the risk of value loss. More clearly defining the green premium for net-zero buildings could further strengthen the business case and create a further incentive for advancing net-zero strategies.

Ultimately, investors are investing in a property's cash flow, and the price they're willing to pay reflects how secure that income stream is relative to alternative investments. So, why isn't a green building trading at a lower yield because, in theory, it's a less risky investment? That is an especially valid question in Canada because legislation around carbon emissions is emerging, mostly at the municipal level, in places like Toronto, Vancouver, and, to some extent, Montreal.

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Among global examples emerging, New York City passed its Local Law 97, which went into effect in 2024, that assesses a financial penalty for buildings that don't meet certain carbon emissions reduction limits. "It's very likely that there's going to be green building regulations in place at some point in time that owners are going to have to work towards achieving. So the risk is that if you're not making those investments today,

then you're going to get a fairly significant capital requirement down the line, or worse, you may get financial penalties,” says Locke. In addition, buildings with higher emissions may have a fairly significant competitive disadvantage in the future.

Ideas emerge around best practices

Different parts of the world are further ahead of Canada when it comes to measuring decarbonization. Some European governments, for example, have created regulations where in order for a building to trade, it needs to have – at minimum – a plan to achieve net-zero by a certain time frame. [Australia](#) and New Zealand are also more advanced in government oversight and regulation that is being put in place around decarbonization.

“In those markets where they're a little bit further ahead, we can look to our peers to see how they're quantifying decarbonization efforts and how they're measuring it from one building to the next,” says Locke. “We can get clues from that and also alignment, because valuing decarbonization should be dealt with consistently in all markets.”

One of the recommendations from [Decarbonizing Canada's Commercial Buildings: The Owner & Investor Perspective](#) published by REALPAC, Canada Green Building Council, and the PLACE Centre at the Smart Prosperity Institute is to improve data standards and disclosures. Governments and industry need to work towards harmonizing standards across the industry, and the report encourages industry to take the lead by engaging all levels of government across Canada to ensure a consistent approach to building emission performance standards and labelling.

“In the appraisal world, we rely very heavily on data to make decisions based on what the data is telling us and what the market is telling us,” says Locke. “There's been lots of literature out there to point to say that a net-zero building is more

valuable than one that isn't, but the sales transaction data to back it up isn't really there. So that's a major challenge.”

One possible solution is to build databases of information that show premiums paid and values assessed to properties with specific features. However, developing more data and transparency is difficult because there's not much consistency across Canada in how carbon emissions are regulated. Utilities vary by province in terms of data control, making it challenging to access nationwide consumption data. As a result, obtaining even basic data to compare energy consumption and costs between buildings is difficult.

Outlook: Solutions could emerge quickly

Where the appraisal industry is at right now is starting to incorporate checklists into its valuation process to begin building a record of which properties are where in the cycle of decarbonization. “It’s a fairly rudimentary starting point, but people are coming together to discuss data collection and what should be included on that checklist,” notes Locke. “What elements should we be tracking? And maybe if we all track it together, we can build a database to figure out which elements matter in valuation.”

LEED certification is one piece, but it’s important to look at what other investments have been made. There are different ways for a building to achieve net-zero, and we need to figure out which of those things we should be tracking, which ones matter, and which ones matter the most,” adds Locke.

For example, CIBC Square is a brand-new downtown Toronto office that is a net zero building. “When we value it, we certainly value it with a premium over anything else. But that premium is not just for net-zero, the building features brand new construction, great tenants, and great location. So, we know it has a premium value, but quantifying how much of that is attributed to the fact that it's a green building and how

much is attributed to all these other factors is very difficult to delineate,” says Locke.

Another area where the appraisal industry can play a role is in elevating the training and education of appraisers. The first step will be building more education into the Appraisal Institute and working with the UBC to develop a training program. The UBC conducts training programs for appraisers in Canada for certification. “Again, this is early stages. We still have to figure out what the approach needs to be, and what the methodology needs to be, and then we will build training from there,” says Locke.

Although developing a framework around valuing decarbonization in property is in its early stages, standards could emerge quickly now that the IVS and other forces are aligning to propel the issue forward. “We’ve got a government in place in Canada now that is focused on decarbonization, and this momentum is going to force the appraisal industry to accelerate our knowledge and understanding of decarbonization,” says Locke. “We need to embrace this and learn how to work in the confines of this very quickly. I think within three years we will have solved this problem in Canada, and we will be measuring decarbonization and including it in our property valuation reports.”

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