IMPACT OF INDOOR ENVIRONMENTAL QUALITY AND INNOVATION FEATURES ON RESIDENTIAL PROPERTY PRICE IN MALAYSIA

IMPACT OF INDOOR ENVIRONMENTAL QUALITY (IEQ) AND INNOVATION (IN) FEATURES ON RESIDENTIAL PROPERTY PRICE IN MALAYSIA: A REVIEW

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Structured Abstract:

Green building concept, a trend in developed nations, has spread to Malaysia. The green features improve the functions of buildings and promises higher returns. Indoor environmental quality (IEQ) and Innovation (IN) are among six criteria of Green Building Index (GBI) that building owner needs to attain for its building to be certified as ‘green’ in Malaysia. The benefit of IEQ is to create conducive indoor environment for building occupants as for living and working. While IN is to meet the objectives of GBI through green building design initiatives and sustainable construction practices. The research question is does IEQ and IN features give direct impact to residential property price? Therefore, this paper will review the broad literature regarding the impacts of indoor environmental quality (IEQ) and innovation (IN) for residential building property and its implication towards property price and rental. The early hypothesis of this paper anticipate that innovation (IN) and indoor environmental quality (IEQ) features will indirectly increase residential property market price and rental in spite of the lack of comparative financial data. From this paper, it is hope that the positive impacts of these features will encourage building owners, developers and other main development actors to put these criteria into the same consideration as other criteria in GBI as one of the way to compensate the impact of the building towards economic, environment and social.

Keywords: Green Building Index (GBI), green building features, indoor environmental quality, innovation, property price and rental, residential property

Article Classification:

For internal production use only

Running Heads:

1.0 Introduction

Previous studies have identified four major categories of factors that affecting the housing price, namely structural, economic, demographical and environmental factors (Damigos and Anyfantis, 2011; Hui et al., 2007; Jiao & Liu, 2010). Environmental factor is related to the environmentally resources consumption and energy savings. When it comes to energy consumption, based on the analysis conducted, almost 40% of the total energy consumption is for the construction sector and about 30% of energy consumption is for the purpose of housing.

Malaysia shows a moderate population growth with population density of about 29.9 million and continues to grow at the rate of 2.4% per annum (Department of Statistics Malaysia, 2013). The need and demand for housing were overwhelming especially in urban areas. The compact and rapid growth of development consists of several types of construction that leads to higher energy consumption as well as carbon emission. Due to global warming and other imbalance environmental problems, construction sector took measures in reducing the impacts by balancing the average air temperature and composition of greenhouse gases by introducing the green building concept (Tan, 2012).

However, Malaysian housing developers are still weighing the costs and benefits to build green building since many of them are very concerned with the extra construction cost. Besides, the additional construction is recognized among the main barriers in green building development. Thus, these issues become more crucial due to the unstable housing prices in Malaysia that may affect their profit.

In Malaysia, green building is certified by six main criteria. They are energy efficiency (EE), water efficiency (WE), indoor environmental quality (IEQ), sustainable site management and planning (SM), material and resources (MR) as well as innovation (IN) (Greenbuildingindex Sdn. Bhd., 2013). Figure 1 below ranked the importance of green building criteria in GBI. IEQ is considered as the second important for new non-residential building and third for residential where as Innovation is the least importance in every type of these building. The significant criteria of IEQ and IN will now be discussed.
There are a number of studies on climate change impacts on diverse aspects of human life, such as energy consumption, water resources, health, public awareness, politics, government incentives and agriculture have been conducted. Other than that, direct contact with nature through green space allocation around the building for air quality enhancement, health and interior quality improvement does bring positive impacts on the urban real estate market. Therefore, every single aspect especially in terms of how much to pay for green and environmental benefits will be explained.

2.0 Green Building

Samari et al., (2013) defined that green buildings are designed to reduce negative impacts on the environment as well as increase occupant’s health by addressing five categories. They are:

i. Sustainable site planning;
ii. Safeguarding water and water efficiency;
iii. Energy efficiency, renewable energy and lower greenhouse gas emissions;
iv. Conservation and the reuse of materials and resources; and
v. Improved health and indoor environmental quality.

Many researchers have listed green building benefits through different standpoint and aspects. When it comes to green building, the environmental benefits will be the ultimate aims to be achieved. Singapore Green Building Council (2010) explained that the benefits of green building are mainly to reduce pollution, waste and environmental degradation. Table 1 below shows the numbers of benefits reported by those engaging in green building for new green buildings as well as the greening of existing building through retrofits and renovation projects according to Mc-Graw Hill Construction (2013).

<table>
<thead>
<tr>
<th>Benefits</th>
<th>New Green Building</th>
<th>Green Retrofit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decreased operating costs over one year</td>
<td>8%</td>
<td>9%</td>
</tr>
<tr>
<td>Decreased operating costs over five years</td>
<td>15%</td>
<td>13%</td>
</tr>
<tr>
<td>Increased building value for green versus non-green projects</td>
<td>7%</td>
<td>5%</td>
</tr>
<tr>
<td>Increased asset value for green versus non-green projects</td>
<td>5%</td>
<td>4%</td>
</tr>
<tr>
<td>Payback time for green investments</td>
<td>8 years</td>
<td>7 years</td>
</tr>
</tbody>
</table>

Table 1: Green Building benefits expected from green building investment.

Another significance of green building construction is to improve quality of life of its inhabitants and also translates the building design into better health and productivity. Green building concept also meant to construct a building to minimize the impact of the building to the environment by reducing demand on resources and materials.
2.1 Indoor Environmental Quality Features

Indoor environmental quality (IEQ) is a key component in the evaluation for meeting the concept of green building that aims towards sustainable development. There are four main elements in IEQ, which are (1) thermal (temperature and humidity); (2) noise comfort; (3) indoor air quality (air movement CO2 concentration); and (4) lighting. The main purpose of applying the IEQ element is to prevent from experiencing sick building syndrome (Sulaiman, Yusof and Kamarudin, 2013).

Global warming is anticipated to have strong implications on future energy demand of buildings; with regards to the overheating aspects. Therefore, indoor environmental quality characteristic is the solution. An imbalance of IEQ will give negative impacts to facilities, building and occupants. It is not limited for air pollution, thermal conditions, humidity, sound, lighting and odor but also includes the use of energy, design and natural ventilation (Aliffadilah, 2008).

Indoor environmental quality is rarely considered as a priority in most development planning and management. IEQ elements account for 12% of green building evaluation criteria for residential building (Greenbuildingindex Sdn. Bhd., 2013). However, the concentration for the balancing of indoor environmental quality are crucial as IEQ are very closely related to thermal comfort that comprise the temperature and humidity that will influence the indoor quality. Moreover, the quality of occupant’s health and satisfaction are more important since they will be affected by the quality function in a building. According to Sulaiman, Yusof and Kamarudin (2013), 13% of respondent give suggestions to improve building indoor quality through green technology.

According to GBI, IEQ can be achieved through good quality performance in indoor air quality, acoustics, visual and thermal comfort. These will involve the use of low volatile organic compound materials, application of quality air filtration, proper control of air temperature, movement and humidity. Based on this achievement, IEQ will contribute to a conducive environment to human health and productivity (Browning and Romm, 1995). Hence, occupants will be more satisfied on the thermal comfort, air quality and overall workspace.

2.2 Innovation

Innovation is more likely associated with innovative design and green approaches to meet GBI objectives. Among the green approaches by developer include the application of green landscape on the wall, roof and around the building which can help to reduce the energy usage and improve thermal comforts of the occupants (Akbari and Taha, 1992; Wong et al., 2003a; Wong et al., 2003b). This will also contribute to better interior environment quality in the building. Thus, among the green approaches that can contribute under this criterion are vertical green wall, herb and food garden, external shade devices as well as LED façade lighting.

According to Figure 2, innovation comprises of three main criteria in GBI qualifications namely Energy Efficiency, Water Efficiency and Site Project Development and Management. These elements provide their own benefits and advantages prior to environmental enhancements. As revealed in Figure 1 above, it seems that Innovation features are likely to take an insignificant part in green building. However, Figure 2 shows that Innovation covers the main criteria i.e. the tools in Energy Efficiency. For instance, even though solar energy is the worst enemy to the thermal comfort, the use of photo-voltaic energy in Malaysia, seems to be utilized well in order to assist in energy saving. Furthermore, the application of green roof where planting of vegetation on rooftop, is an extremely effective method for reducing heat island effect that has become common phenomenon in cities (Wagner and Omran, 2011).
3.0 Green Building Development in Malaysia: An Overview

Sustainability has become more significant in today's housing property market. The green home have begun in Europe, United Sates and Australia around 25 years ago but it is a new construction concept in Malaysia. Along with the determination created in 10th Malaysia Plan, the introduction of Malaysia green building rating system, Green Building Index and the ultimate aim of saving 40% of CO2 emission till 2020, Malaysia can be on the forefront of the development to embark on viable environmental survival strategies (Wagner and Omran, 2011).

Today, the concept of green building is growing rapidly. The developers are racing to develop green technology to meet its high demand and the improvement of awareness to protect the environment. In built environment, green building is one of the methods for achieving sustainable development. In addition, encouragement and incentives provided by the government, properties with green technology have bright opportunity in property market compared with non-green technology properties.

In Malaysia, green building is assessed and recognized by Green Building Index (GBI). GBI has highlighted six criteria to be achieved by building owner to label their building as ‘green’. They are energy efficiency, water efficiency, material and resources, sustainable site management and planning, indoor environmental quality and innovation.

Most of the researchers have discovered the obvious contribution of green building in terms of energy efficiency, water efficiency, material and resources and also sustainable site management and planning. There are little specific studies in the literature to examine the effects of housing characteristics on green homes inhabiting intentions in Malaysians context. The idea seems to be that housing characteristics may lead to buying intentions for eco-friendly homes. The physical structure of the house could be important in explaining the motivations of green home owning (Tan, 2008). However, to the best of researcher's knowledge, in the context of Malaysia there is no single study emphasized on the significant role of indoor environmental quality (IEQ) and innovation (IN) criteria especially its interrelation with property price and value.

4.0 Green Building Criteria affect Price and Rental

Green building is the sustainable construction developments’ foundation. Construction industry with high contributes to gross domestic product, has undeniable impacts on the economy. In addition, the United Nations explains that “sustainable development” is a collection of methods in order to relieve poverty, create the equitable standards of living, satisfy the basic needs of all peoples, and set up sustainable political practices while taking the essential steps to avoid irreversible damages to the environment in the long-term.

It has been pointed out that IEQ and IN is relatively providing many benefits for occupant's health as well as minimizing the building impact to the environment. IEQ can effect occupant's productivity, profitability, customer satisfaction and innovation or at least satisfied on the thermal comfort, air quality and overall workspace compared to non-green building (Heerwagen, 2000). Additionally it has been said that IEQ create conducive environment for human health and improve productivity than building which use standard practices (Browning and Romm, 1995). While, green approach (Innovation) i.e. landscape on wall, roof and around building will provide better visual attraction which linked to better health as well as connection with nature (Gobster and Hull, 2000).

Kauko (2003) has identified environment as one of the factors to be taken into account in determining housing property value. Initially, selling price, take up rate, occupancy rate and rental rate are inter-related. When the demand for house increases, consequently there will be an increase in the rental rate, as the supply for housing in the short run is fixed. This will attract investor to purchase building as an investment and in due course as there is limited supply, the price for the building increase.

Due to the increase of price in green building, investors will find it profitable to build new green building, hence increasing the supply in the long run. Occupancy and take up rate is dependent on the tertiary activity of national economies. Where there is an increase in the tertiary activity of the economy, it will reflect in the increase in demand for housing, hence it increases in occupancy and take up rate of existing green housing.

The main difference between green office building and conventional building is the green features implemented to the building and they are given green certification according to their degree of green features. In order to determine the greenness of the building, various countries have their own green accreditation agencies that are responsible in calibrating the green standard features. The green eco-labeling has a positive impact on the market and rental value (Falkenbach et al., 2010; Eichholtz, Kok and Quigley, 2009; Fuerst and McAllister, 2010; Harrison and Seiler, 2011; Geltner et al., 2007). At the local context, there are no studies yet to reveal that green eco-labeling give a positive impact on the market and rental value.

Innovation and indoor environmental quality will provide an attractive view, open space preservation and convenient recreation opportunities to the building occupant. People will value these amenities and can be reflected in increased real property values and marketability of the property itself. These values incorporate such criteria into planning, design and marketing for new and redeveloped properties.

A report published by the Royal Institution of Chartered Surveyors concludes that, “A clear link is beginning to emerge between the market value of a building and its green features and related performance” (Anghel and Onofrei, 2009). The shortcomings need to be dealt with for two reasons as in Figure 3 below.
There are several studies and articles that measured the impact of sustainable design features or particular aspects of environmental aspects on the building market value (Nevin and Watson, 1988; McNamara, 2002; Sayce et al., 2004; Lutzkendorf and Lorenz, 2005). However, they are still far behind the resolution and finding, which concludes that there is direct impact of these design features. For instance, generally there are many researches that focused on the energy efficiency impacts rather than other green features. The virtuous circles of green features impacts consist of:

- The three classifications of main drivers in green investment are external drivers, corporate drivers and property level drivers. These three are responsible to assist and create opportunity to real estate. In green investment, investor could indicate that green property fetched a higher in market value compared to non-certified buildings (Falkenbach et al., 2010, Harrison and Seiler, 2011; Fuerst and McAllister, 2011; Eichholtz et al., 2009; Scen et al., 2011).

- In energy efficiency building, it shows that this type of building quantify the added value i.e. green office building are 64 percent higher in sale price while Energy Star rated buildings were approximately 15 percent higher prices (Pivo and Fisher, 2009; Hodgson, 2008).

- Certified green building and higher green index building had more environment friendly features and commanded a higher rental premium as well as fetched relatively higher in rental income (Falkenbach et al., 2010, Harrison and Seiler, 2011; Fuerst and McAllister, 2011; Eichholtz et al., 2009).

- Precisely, the green office buildings indicates 36 percent higher in rental rates while Energy Star rated buildings were approximately 8 percent higher in rental income compared to non-rated building (Pivo and Fisher, 2009; Hodgson, 2008).

- LEED and Energy Stars rated office building fetched better occupancy rate (Harrison and Seiler, 2011; Eichholtz et al., 2009) and green building reported to be 5 percent higher occupancy rates compared to conventional buildings.

**Figure 3**: The links between sustainable design features and economic benefits.

<table>
<thead>
<tr>
<th>Sustainable building features (example)</th>
<th>Resulting economic effects</th>
</tr>
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<tbody>
<tr>
<td>Energy Efficiency</td>
<td>Lower operating and maintenance cost.</td>
</tr>
<tr>
<td>Minimized the impacts of building to environment.</td>
<td>Improved marketability and thus, lower vacancy risk and higher stability or cash flow.</td>
</tr>
<tr>
<td>Increased functionality, serviceability, durability and adaptability</td>
<td>Higher rental growth potential</td>
</tr>
<tr>
<td>Ease of conducting maintenance, servicing and recycling activities</td>
<td>Property loss preventions benefits and lower business interruption risk.</td>
</tr>
<tr>
<td>Increased comfort and well-being of occupants</td>
<td>User/Occupant productivity gains</td>
</tr>
<tr>
<td></td>
<td>Reduced compensation costs and risk of litigation caused by Sick-Building Syndromes.</td>
</tr>
</tbody>
</table>
US building owner indicates that energy efficiency building will assist increment building value (Eichholtz et al., 2009) and large proportion of residential property market participants consider the buildings energy consumption as an important criteria when deciding to buy or rent a flat.

On the other hand, green building practices can reduce operating costs by as much as 9 percent, increase building values by 7.5 percent and realize a 6.6 percent increase in return of investment (InviroTech, 2014).

Figure 4 demonstrates the interrelations of green features level with occupancy rate and capital value and construction costs. The figure illustrate that there are directly proportional and positive impact between green aspects and capital as well as the occupancy rate. However, the construction costs are relatively increased as more green trends promoted.

4.1 The Need for Sustainability Assessment Information

Generally, the idea of consumers’ willingness to pay more for greener products is debatable. It is reported that 60% would not pay more for greener products, 40% would pay more for greener products. Besides, some of the respondents said that, “it makes no difference whether it is environmentally friendly or not” (Sizelove, 2012).

The incremental cost to design and construction for high-performance or green buildings typically range from zero to eight percent (0 to 8%) than the costs to design and construct conventional buildings. The fear that green buildings might increase construction costs tremendously makes it hard to sell to private developers or government agencies despite their undeniable advantages for the environmental and thermal comfort. This factor was believed will lead to the additional price for the green housing price and rental. Although green buildings provide a wide range of benefits for the society, green building development suffers from different kinds of market barriers in developing countries including Malaysia. Therefore, it is important to observe information on the emerging link between market value and green features.

Financial decision makers are provided with empirical proof of the positive effects of sustainable design features and able to reduce investment risks as well as to generate positive cash flow (Lutzkendof and Lorenz, 2005). The expert believes that friendly buildings will become more desirable property assets in the future whereas the non-green buildings will have depreciation in value (McNamara, 2002). This is the reason why it is vital to get better understand on how sustainable building features affect property risks and return.

Moreover, most people naturally want a good and useful product at a reasonable price and it is noticeable that when it comes to “green” products, quality can vary a lot and most of them cost extra. Moreover, the modernization factor implied in the building will affect the price i.e. Flats within fully modernized or new buildings lost only 6.5% during the ten year period, while prices for flats within partially or un-modernized buildings decreased by 12 percent and 13.5% respectively (Lutzkendof and Lorenz, 2005).

The perception of property with emphasize sustainability related building characteristics and performance aspects are seen important in determined of a property worth and market value (Lutzkendof and Lorenz, 2005). Furthermore, poor environment is seen as an investment risk and reason for not buying or renting a commercial residential premise.
5.0 Conclusion

Sustainability aims in closing the gap between economics and the real world, as economists would say internalities. The significant things are to know how much to charge, which means putting price on the environment. The balance of the financial, environmental and operational aspects of every decision should be clearly understood. Include all the information needed for purpose in valuation, appraisal, investment and building guidelines. It is vital to define and clarify the basics for description and contribution to sustainable development. In conclusion, from the above discussion it was shown that innovation and indoor environmental quality indirectly raise up the market price and rent of property in spite the lack of comparative financial data. The positive impacts of sustainable design will not only move the price up but will create a positive move on the sustainable construction.

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