

Who Bears the Cost of Green Policies?

An Examination of Green Office Rental Contracts, and Mandatory ESG Disclosure Regulation in India

Abstract

Financial prudence compels businesses to invest in green projects when the marginal benefits - pecuniary or non pecuniary- exceed the marginal costs. Regulations create incentives for green initiatives when other financial benefits are not clearly apparent. However, regulations that are also equitable aim to distribute costs and benefits evenly across stakeholders. We analyze over 17,000 commercial office rental contracts in India to examine the effect of a newly introduced regulation that forces large firms to publish ESG disclosure. For several firms, renting green offices is a feasible ESG activity to disclose. We find that rents in green-labeled assets and those with health certification command significant premiums between 7-14%. However, the green rents increased much faster over time compared to non-green counterparts and the propensity to rent green varies significantly across industry segments. Suppliers (landlords) benefitted from the regulation by disproportionately increasing rental rates and contract complexity. Existing tenants and foreign firms ended up paying higher rental prices while other firms redirected their green commitment away from green buildings. An overall reduction in green rentals is the opposite of what the ESG disclosure regulations tried to achieve.

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