



THE AUTHOR:

Miles works with a range of clients on sustainability issues relating to their buildings and land, enabling them to meet sustainability objectives which are usually driven by corporate environmental targets, wider corporate responsibility strategies, regulatory initiatives and business efficiencies.

Miles' clients include both public and private sector landlords, occupiers and developers, as well as regulators. He combines his role as a sustainability consultant with those as:

- Chairman of the Investment Property Forum's Sustainability Interest Group
- Chairman of the UK Green Building Council's Policy Committee
- A member of the British Council for Offices Environmental Sustainability Group
- A member of the Green Property Alliance.

Between 1994 and 2005, Miles was a Senior Lecturer at Oxford Brookes University, where he spent 11 years researching, teaching and undertaking consultancy work on property sustainability issues as well as helping the University to address its own environmental management.

SUSTAINABLE BUILDINGS: FUTURE CHALLENGES & OPPORTUNITIES

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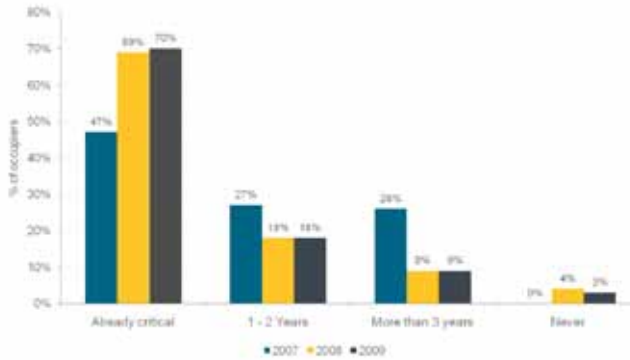
MILES KEEPING

Director and Head of Sustainability
at property consultancy GVA

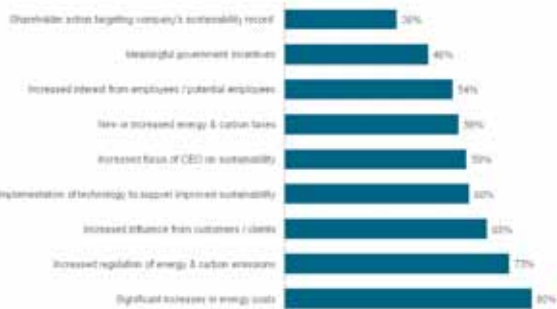
What is the Appetite for 'Green' in our Sector?

In the good days of the property market, it was often said that people in my position as a Head of Sustainability would have been at risk of losing their job in a recession. However, my view was always that sustainability should be about conservatism, both in terms of resources and in terms of money. I am pleased to say that it seems to be the case that this has not yet gone off the agenda.

In 2007 almost half of people thought that sustainability was already critical to occupational decision making, but as the recession started to bite that leapt up quite significantly, which underlines that this should be about being conservative with both natural and financial resources and about being conservative about decisions as well.



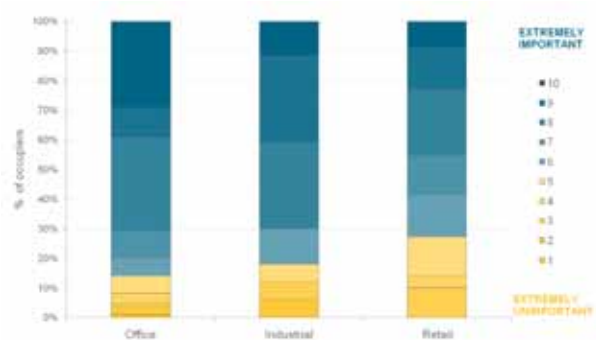
There are a whole range of different drivers that make sustainability even more important to people. In the research shown here, nearly three quarters of respondents said that increased regulation of energy and carbon emissions was a key driver, with significant increases in energy costs being another.



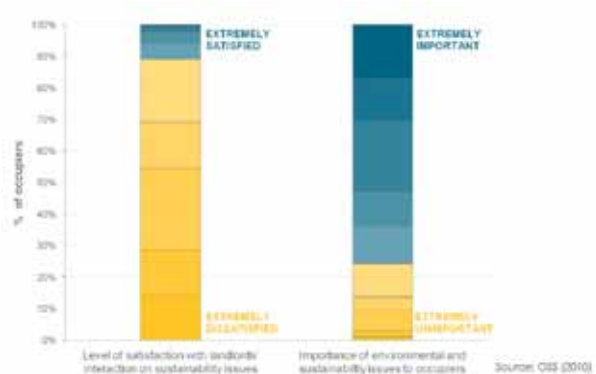
How important is sustainability to occupiers?

The evidence from the last occupier satisfaction survey shows that of all the issues that arose eg levels of rent, condition of property, service charges etc, responses around the issue of

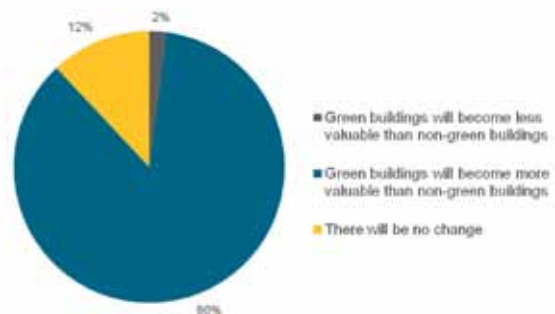
sustainability seemed to generate most interest. And occupiers in the office sector showed more interest in sustainability than those in industrial and retail sectors.



There is a gulf between the level of importance placed on sustainability by occupiers, which is very high, and the level of satisfaction with landlord's performance on the issue, which is perceived to be very low.



This is interesting when you consider that 88% of landlords think that green buildings will become more valuable than non-green buildings.



The reasons are that landlords and investors think this because:

- Tenant retention is better
- Void periods are shorter
- Rents can sometimes be higher
- Rental growth is stronger
- Depreciation rates are slower; and
- Assets are more liquid.

Is there any market evidence for this in future? One landlord with several billions of pounds worth of property assets is currently rolling out green leases for as many as his occupiers as he possibly can, because for him green leases are about being conservative and finding savings in carbon, savings in waste generation and savings in money.

Green Policy Drivers

There is a vast array of green policy drivers at both the national and European level and a lot of regulation already in place. The pace of change is also incredibly fast.

The key items are:

- CRC Energy Efficiency Scheme
- EPCs & DEC's
- Green Deal
- Part L
- Carbon Zero
- Carbon reporting requirements

These items include a number of different issues that will affect us all. They give us a number of key messages as to where we are going to be in terms of policy in the future and what that means for us here and now and how we deal with the management of our estates.

The CRC Energy Efficiency Scheme This has become simpler as Government is no longer giving any money back but will retain keep it all, but this does show that it is going to become increasingly expensive to be unsustainable.

Energy Performance Certificates and Display Energy Certificates In future these will become applicable to more buildings, both in the private sphere and, as is already the case for DEC's, the public sphere. DEC's will also become applicable to much smaller buildings in the public sphere than was the case previously. This tells us that is increasingly going to be important that we are transparent at the building level about how much our buildings our costing us in carbon and also financial terms.

The Green Deal Whereas in the past we all assumed that this applied particularly to people in homes and to SME's, this is not necessarily now the case and could in fact apply to any size of organisation. Many large property owners do not feel that this is particularly attractive as they have access to cheaper finance than the green deal providers can provide.

Part L of the Building Regulations (dealing with thermal efficiency) Part L is increasingly being modified and the new version from 2013 onwards will again require another 25-30% increase in carbon efficiency of buildings to be compliant, and

the amended regulations will apply to existing buildings where there are consequential improvements and not only to new build. Therefore where buildings are extended or improved the new version of Part L kicks in to embrace the efficiency off the whole of the building and not just the extended part.

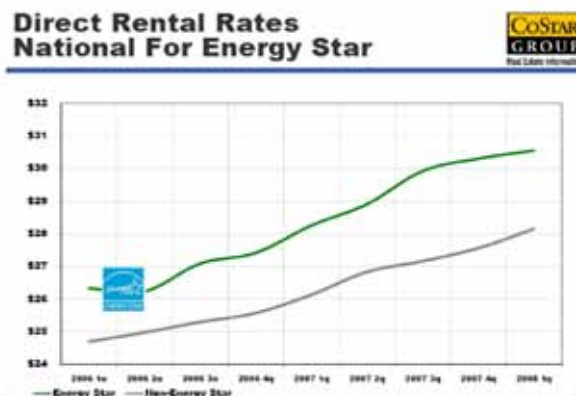
Carbon Zero Despite difficulties in defining this, and with the timescale already extending beyond the then Minister Alistair Darling's original date of 2018 for when all new buildings should be 'carbon zero', we are moving inexorably towards a situation where all new buildings will be 'Carbon Zero', however that may be defined.

Carbon Reporting Requirements Both public and private organisations will be required to report on the amount of carbon that they are responsible for emitting. This will have a significant implication as far as we in property are concerned as around half of the carbon emitted in this country comes from the way we occupy and use buildings.

In conclusion what does this tell us? It remains to be seen whether the Coalition Government will be the 'greenest Government ever' as they claim, but the amount of political intent that is coming out of Westminster as far as green issues are concerned is significant and supported with more regulations.

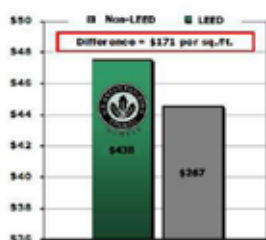
Value Implications

Does green value exist? There have been a number of studies of varying degrees of quality on the issue and the results are confusing for those who know quite a lot about this and utterly baffling for those people that know very little. But there is a perception that green buildings should have some kind of premium attached to them, whether that is through rental premium or capital value premium. Data from the USA shows that green buildings are considered to have better rental rates.



Although such a high differential as that seen below is questionable.

Sales Price / Square Foot – LEED Rated Buildings Nationally



Sustainability will increasingly have to be built into the valuation process and then we might begin to see some kind of premium emerging from the evidence.



When we think about risk adjustment or the risk premium, if, as landlords and occupiers are telling us, there is greater marketability around green buildings then we might want to consider the implications on the yield attached to a property. If we want to think about the issue of growth in the yield, we might want to think about longer-term attractiveness of properties. One characteristic of a green building might be that it is more robust against obsolescence than other buildings; particularly regulatory obsolescence and that will of course have an implication as far as depreciation is concerned as well.

Implications for Your Estate

One of the things that I am increasingly working on, and particularly with clients in the public sector, is to define what is the Authority's Corporate Sustainability Policy. And once we have found it then we can we try to see how it is translated into property decision-making? Often the asset managers in both public and private organisations have limited awareness of their own Corporate Sustainability Policy, but this increasingly something that they will have to think about given the environmental impact of buildings and the increasing amount of regulation.

How does a corporate sustainability policy for a local Authority translate into property decision-making around disposals? How market ready is a property in sustainability terms. How liquid is that asset? Remember what landlords were telling us about greener buildings being more liquid and saleable more quickly. What about procurement of property? What

about the due diligence investigations that are undertaken when you are procuring a property? And the sustainability risks attached to procuring new property? Does your regular due diligence survey work encompass those sorts of risks, analyse them and monetise them? If you are working in joint ventures or collaboratively, what are your partner's objectives? When we think about carbon savings, how will you prioritise? You will increasingly be pressurised to save carbon; how does that fit into your estate strategy? There is also the issue of cost savings. I believe the issue of carbon and cost savings should go hand in hand. If they do not then something is wrong with your sustainability strategy and also the way that you are implementing sustainability objectives.

Conclusion

On a final note, beware of restructuring from an intellectual capital point of view in an organisation. The brain drain as a result of restructuring in respect of property market knowledge may be counterproductive in the long term. Also, one of the most important things that you can get your teams to do in the future is to make sure that you gather good carbon, energy use and financial data. It is difficult but becoming ever more important.