

PLAN AHEAD

THE TRENDS TO LOOK OUT FOR... IN SUSTAINABILITY

SUSTAINABILITY MARKET

Keeping Sustainability Front of Mind

As focus moves away from the COVID-19 pandemic, attention will naturally fall back upon the topics of sustainability and ESG. The decision of whether to divest or invest is one

that challenges many company boards and asset managers. Occupiers have higher expectations and the reputational risk to investors, occupiers and landlords is front of mind.



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Keeping Sustainability Front of Mind: The Commitment to Net Zero

- WORKING TOGETHER: ESTABLISHING ROLES OF THE OCCUPIER AND LANDLORD
- THE NEXT PHASE OF MEES
- FUNDING
- GREEN LEASES
- VALUATION
- IMPROVE, MONITOR AND COMMUNICATE PROGRESS



INFORMED DIALOGUE WITH LANDLORD AND OCCUPIER

IS CRITICAL IN 2022 FOR CHANGES IN SUSTAINABILITY

It is critical that 2022 sees informed dialogue between landlord and occupier relating to how the changes in the sustainability of an asset will be funded. How will existing leases be treated? What will new leases look like? It is

increasingly likely that Green Leases will become the norm as opposed to anything unusual. It remains in the interest of all parties to exchange, previously unshared, data around how a building operates and where efficiencies can be gained.



ESG A KEY DETERMINANT IN THE TRANSACTION PROCESS

VALUATION ALREADY CONSIDERS CHANGES NEEDED

ESG is already a key determinant in the transaction process. Valuation already considers changes that will be needed, and this will become even more nuanced over the course of the year.

The recognition of a green premium is well founded, what is less clear is how long that premium has before the volume of buildings it is relevant to become fewer, as of course more buildings become 'green'.





NET ZERO TARGET COMPANY GROWTH

WITH THE SCIENCE BASED TARGET INITIATIVE

The growth in the number of companies committing to Net Zero targets, many in line with SBTi (Science Based Target initiative), is of course welcome. The acquisition of a building that detracts from these core aims would only be appropriate should

there be sufficient headroom in the pricing to deliver a net zero asset via refurbishment and / or redevelopment. Third party services providing due diligence on the sustainability, or not, of an asset will become part of the overarching assessment.



MEES NEXT PHASE

(MINIMUM ENERGY EFFICIENCY STANDARDS)

The next phase of MEES is fast approaching (April 2023) and further legislation is due to be published in 2022, detailing how a minimum EPC rating of B by 2030 should be achieved.



SCOPE 1 AND 2 EMISSIONS FALL TO LANDLORD

SCOPE 3 EMISSIONS ARE TO BE ADDRESSED BY THE OCCUPIER

Scope 1 and 2 emissions tend to fall as the responsibility of the landlord, whilst Scope 3 emissions are to be addressed by the occupier. These emissions all relate to the same building and an open relationship between landlord and occupier is fundamental to drive efficiency and improvement. An understanding of the plan to improve, monitor and communicate progress on each element of the emissions should be built into any discussion and agreement on the protocol and timing of any changes must be agreed and shared.

Currently, there is no legal obligation to share the responsibility or even how to allocate costs. The support of third-party experts that bring an objective view to the table helps resolve these issues.





CHANGES IN SUSTAINABILITY ARE BIGGEST OPPORTUNITY

AND CONVERSELY BIGGEST CHALLENGE WE FACE THIS YEAR

Changes in sustainability are both the biggest opportunity and conversely biggest challenge we face this year and on through the decade. It brings with it a chance, almost a compulsion, for landlords,

occupiers, third party experts to work together in a more transparent way than ever before. This is one area where shared knowledge and open dialogue are the key to driving success.



GROWING BIFURCATION

NOT ONLY IN THE RENTAL MARKET BETWEEN PRIME ASSETS AND SECONDARY BUT ALSO BETWEEN ASSETS THAT ARE NET ZERO READY AND THOSE THAT ARE NOT

The phrase 'stranded assets' will be well used in 2022. At its most simple level, buildings that are not green, or are not readily improved to achieve net zero rating will become far less attractive. In essence stranded, due to the fact there isn't a

compelling financial case to buy and improve and therefore the likelihood of a sale and the legal restrictions (forthcoming via MEES regulations) severely limit the opportunities to attract occupiers.





IF YOU HAVE ANY QUESTIONS REGARDING THE TRENDS OR WOULD LIKE TO DISCUSS YOUR SUSTAINABILITY STRATEGY IN REAL ESTATE, PLEASE GET IN TOUCH



Thomas Vazakas

Head of Sustainability

thomas.vazakas@cushwake.com



Andrew Phipps

Global Futurist

andrew.phipps@cushwake.com



Digby Flower

Chair, UK & Ireland

digby.flower@cushwake.com

