The value of 'green'

To date it has been difficult to find conclusive evidence of a 'green' premium for offices in the UK. However, studies in the US and Australia have identified a relationship between value and 'green' driven by occupier preferences. Our view is that the same drivers will create a value and marketing differentiator in the UK.

Despite the growing consensus that 'green' makes economic sense, the question remains as to what the potential premium may be. For developers the question has been particularly pertinent in assessing the return on investment for building to particular BREEAM levels due to the associated increases in development costs.

Evidence presented in RICS 2009 report 'Doing well by doing good?' found that 'green' labelled offices in the US (based on a LEED and/or Energy Star rating) achieved a rental premium of 3% per sq ft and a capital value uplift of 16%. The more interesting finding of this study was that it was energy efficiency that had the greatest bearing on value as a 10% decrease in energy consumption resulted in an additional 0.2% increase in effective rent and a 2% value uplift.

This preference by occupiers, previously attributed solely to meeting CSR policies, is now about reducing operational costs, attracting 'talent' and improving employee productivity. For example, electricity expenditure by commercial users in the UK (excluding heavy industry) has increased by 15% per annum since 2004. Going forward, further rises in energy costs combined with the introduction of the CRC meaning that participants will also be faced with a carbon cost, will place increased onus on those properties that can offer occupiers energy efficiency, and in turn CO_2 emission savings.

In some cases this preference for 'green' has become apparent at a market level. In Germany, 5 of the major office markets saw the take-up market share of 'green' space increase from 8% in 2009 to 14% over the first half of 2010. In the US, LEED certified offices were found to achieve an 8% occupancy premium (RICS, 'What is the effect of eco-labelling on office occupancy rates in the USA?', 2010). When you consider that 73% of the UK FTSE 600 are taking actions to reduce emissions, it is fair to assume that the demand, and in turn value, of more energy efficient properties that help firms achieve these targets, will become apparent. A number of developers/investors, such as Hermes, Stanhope, Threadneedle and PRUPIM, are already addressing environmental performance as they see it as being inextricably linked to maintaining and enhancing future income and investment value.

However, the increasing occupier appetite for 'green' does not necessarily have to be satisfied by new build.

New completions over the next 3-5 years are set to be at historically low levels as development funding remains heavily restrained. As a result the delivery of new, energy efficient stock to the market for both occupiers and investors will be restricted. A more cost effective and more fundable solution would be to undertake a 'green' refurbishment/ retrofit of existing stock. In some cases it could offer a more attractive alternative to new build.

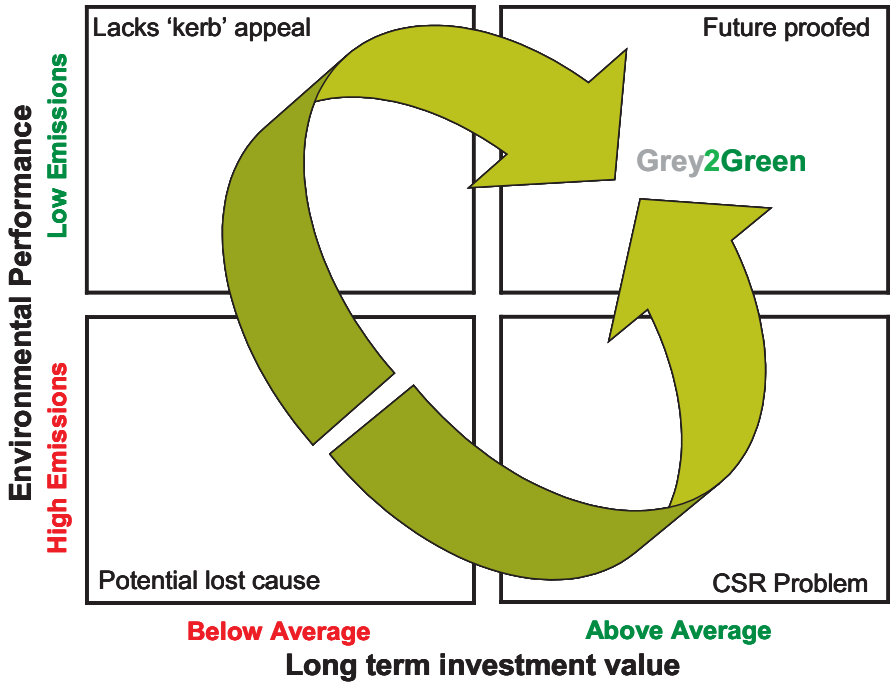
Refurbishment has become a bit of a buzz word of late, with the large number of lease events expected to come to fruition over the next 5 years adding to the story. However, even in an under-supplied grade A market a basic refurbishment will not necessarily guarantee tenants. For example, a lease expiry does not automatically mean that occupiers will leave their existing space as some may prefer to extend their lease on a short-term basis in order to secure a pre-let. Therefore, attracting tenants into refurbished/retrofitted space may require going beyond a basic refurbishment to ensure that it performs environmentally and ticks the appropriate CSR box. This will aid in enhancing a building's 'kerb' appeal to prospective tenants, potentially feeding through to value.

A 'green' refurbishment will also achieve extra sustainability points as the embodied energy/ carbon of even the most extensive refurbishment will be lower than that of a new development. Going further and adding solar PV's as part of a 'green' strategy will also provide energy cost savings and an additional income stream under FiT's. As a result, Savills, with partners Bennetts Associates and Engineering firms, Roger Preston & Partners and Curtins Consulting, have developed a comprehensive service to clients interested in pursuing 'green' refurbishment called 'Grey2Green'.

Despite the lack of definitive evidence in the UK of a 'green' premium, at the very least, by not addressing environmental performance increases the risk of incurring a 'brown' discount. In the short-term, early movers into the 'green' arena are likely to realise a premium and competitive advantage over inefficient stock.

Sustainability Briefing

The 'Green' Refurbishment journey
Green refurbishment/retrofitting is essentially about future proofing value by improving environmental performance while also enhancing its 'kerb' appeal to prospective tenants. Lowering building emissions will assist in meeting occupiers CSR targets, and in turn reduce operational costs in the face of an environment of rising energy costs and legislative requirements. This, and other improvements to items such as internal layout, facade and fit-out will also enhance 'kerb' appeal helping to differentiate product from the competition.



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