

The Great Office Occupier / Developer Debate

#1 The Sustainability and Net Zero Challenge



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It's time for landlords and occupiers to share the new challenges, collaborate on jointly beneficial outcomes and engage in the language of the future workplace.

The lockdown months saw a huge reduction in the operational carbon footprints from commercial workplace premises. The lack of the daily commute for millions of workers also contributed to improvements in urban air quality and energy consumption. Many organisations saw their output credentials improve merely through absence from the office. We did, however, see a rise in fossil fuel use as people heated and lit their homes while working through the colder months of the year. Electrical demand also increased on a domestic level through lighting and the use of computer equipment and broadband networks. It appears we need energy whether in the office or at home. With the huge uplift in energy prices, this has been brought into sharper focus.

Numerous major occupiers are driving a demand for premises that offer net zero carbon, technologically-advanced, space. Boards are setting optimistic, aspirational, sustainability targets across the company, from supply chain to end-user, with office space being a major factor in this overall picture. Unless the occupier owns or leases the whole however, it relies on the landlord playing a major part in helping the company achieve those targets. This is another vitally important alignment factor in matching demand and offer. It is likely to become ever more important as we progress towards the promised global net zero deadline dates.

Achieving sustainable performance is more difficult in existing stock: retrofitting buildings is far more complicated. Older buildings and, perhaps in particular inner-city premises, have historic construction techniques to contend with. Will this create a distinctly two-tier split in what occupiers are able to lease while still meeting their stated targets?

It is admittedly harder to achieve those same efficiencies that are available in new, greener, buildings. Targets can still be met though - and old buildings are not 'dead' - but they require more care, curation and thought in order to achieve

It will take **\$5.2 trillion** over the next decade alone to decarbonize the built environment

Source: Vivid Economics



them. There is an often-overlooked factor in redeveloping sites, and that is the embodied carbon of the existing buildings. Demolition and recycling are not 'green' processes, refurbishment may, however, sit somewhere in the middle. There has been wider recognition of this in the architectural and property sectors of late, and there appears to be greater momentum behind the drive to recycle buildings without demolition as the starting point.

Notwithstanding the above, more and more companies are starting to view net zero carbon as a must-have or deal-breaker: it is moving higher and higher on the agenda when selecting a new office. Research indicates that in the UK market, major occupiers, that account for at least

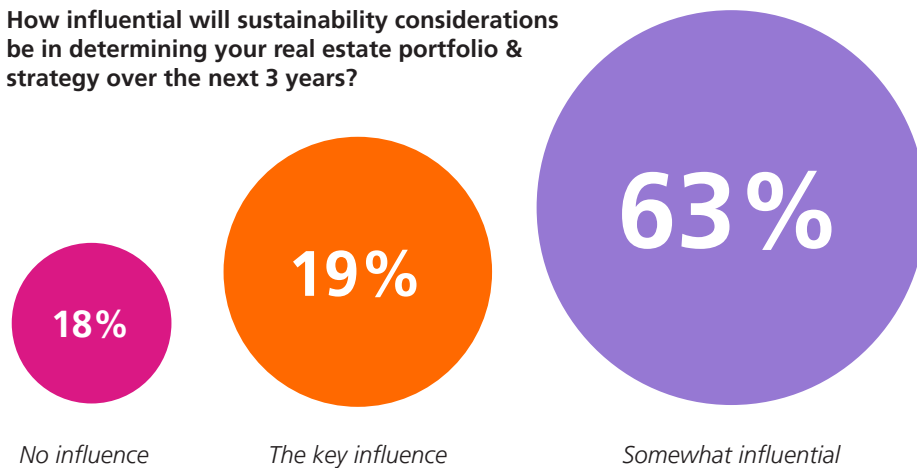
eight million square feet of office space, have lease events coming up this decade have signed up to net zero carbon targets. The impact from these deals alone could have significant market impact over the next ten years. Will there be sufficient urban-centric, brownfield sites available?

But are targets and real operational concerns aligned? There is a view that suggests landlords and developers only take sustainability seriously at the point of transaction, it becomes a tick box deliverable on paper. Responsible occupiers and developers do insist however, that there needs to be an ongoing focus and partnership between them to ensure that buildings continue to be as efficient as possible throughout the lifecycle of a lease.

Property market commentators have long suggested we may start to see a split in the market between prime 'green' stock and the rest – with BIM playing an increasingly central role. But not all occupiers require the prime office developments and landmark projects. Some are more concerned with accessibility and the infrastructure around their locations. Whatever their position, occupiers are going to continue to become more selective with their requirements to get the best out of wherever they are. Landlords will have to respond to these requirements and be more transparent with their offerings.

There is likely to be a real market advantage for those able to provide transparent data: occupiers will be able to confidently report to their sustainability boards and having an audit trail of the supply chain assists with this.

How influential will sustainability considerations be in determining your real estate portfolio & strategy over the next 3 years?



Source: Knight Frank '(Y)OUR SPACE survey'

That said, carbon-neutral materials can be around 60% more expensive, therefore affecting the price of new developments and lettings. By consequence occupiers need to be conscious that there may be a premium around such stock. This points back towards the options available and the decisions to be made in selecting premises. Just because we can build new greener buildings it is not to say that old stock should be demolished: the buildings could be repurposed or made simpler. Embodied carbon does not just go away because a building is knocked down.

Will this lead more companies to acquire buildings outright so that they can better manage the sustainability on a long term basis, particularly if a company's overall footprint is reduced? There are some potential advantages to this strategy if the location and size of premises required can be predicted to be stable for the long-term future.

