White Paper

HIGH COSTS AND QUESTIONABLE ROI DATA PUT NET ZERO BUILDINGS TARGETS AT RISK, WARNS RICS – URGES DATA COLLABORATIONS TO GET BACK ON TRACK

The Royal Institution of Chartered Surveyors' latest global benchmarking survey makes grim reading for 2050 net zero targets. But there are ways to get back on track. Public-private data partnerships to get a better handle on sustainability performance and ROI data are a key recommendation.

"A wake up call to our industry." The Royal Institution of Chartered Surveyors (RICS) pulls no punches with the opening line of its latest sustainability report. We're going to miss the 2050 net zero target – and lock in emissions for years to come – without immediate and sustained action.

Concerns around high costs and questionable ROI data were flagged as key blockers.

These are directly linked to other limiting factors – such as lack of adoption of global standards and fragmentation of like-for-like data that would enable best practice, verification and validation of sustainability measures.

The upshot is that sluggish progress now narrows the window to achieve net zero buildings. Unless the global construction industry can align to "do more and faster, we may find ourselves forced, with less choice about the steps we take," per the report.

Key findings

To compile the benchmarking report, RICS polled circa 4,600 real estate and construction professionals across 36 countries. It found:

- CO_2 emissions from the built environment sector remain at an all time high.
- The sector is still not on track to achieve decarbonisation by 2050.
- Progress is lagging on the issue of measuring and mitigating carbon emissions.
- High costs and lack of ROI evidence is disincentivising investors and acquirers of green buildings.

Yet there are positive signs, states the report, with demand increasing for green buildings particularly in markets where regulation is more advanced.

The RICS Sustainable Building Index signals a rise in demand for green buildings across all regions, with Europe leading the way, followed by the UK.

In Europe almost 80% of respondents said occupier demand for greener buildings had increased modestly or significantly, and around two thirds said the same of UK occupier demand – though modest rises represent the bulk in both markets.

Investor demand followed broadly the same trend lines across regions.

In terms of both occupier and investor demand, the Americas are the biggest laggards.

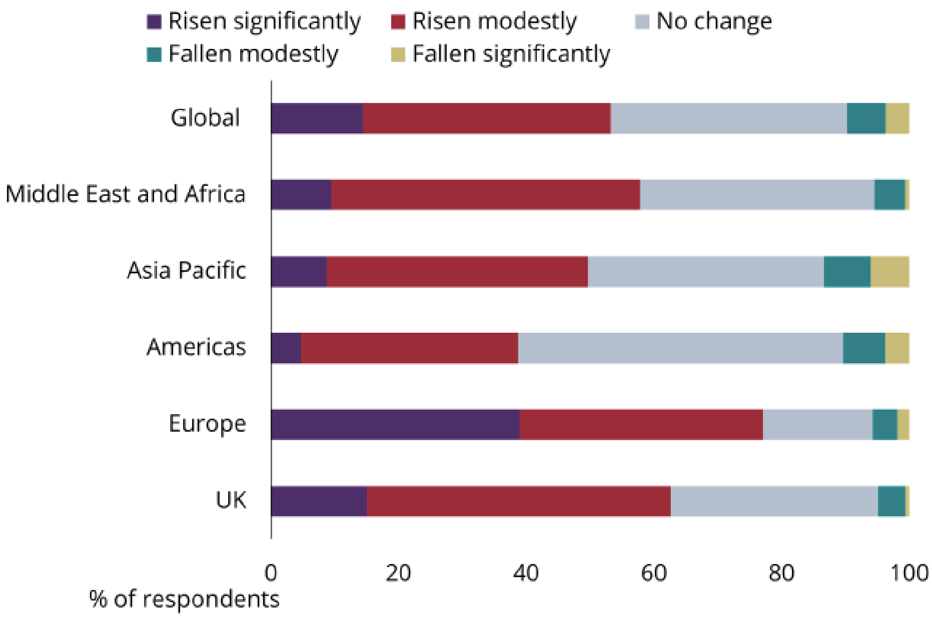


Figure 3 Change in investor demand for green/sustainable buildings in the last 12 months

Image © RICS

Higher rents, higher values

The survey indicated that a building's green and sustainability features have a material impact on both rental yields and capital values. On a scale of 1-5 (1= no impact, 5 = significant impact) circa two thirds of respondents globally rated the impact at either 3 or 4.

"Judging by this response, sustainability features of a building appear to have a fairly strong impact on rents and capital values," per the report.

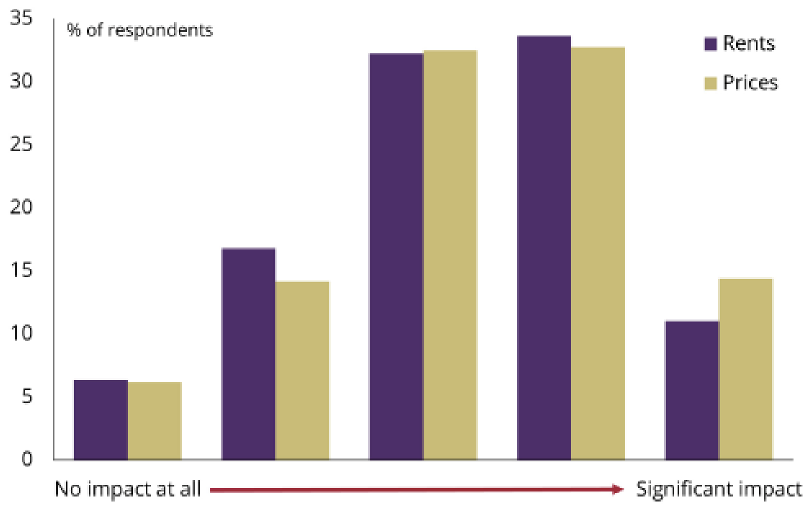


Figure 4 Impact of green and sustainability features on rents and prices

Image © RICS

Efficiency and comfort key

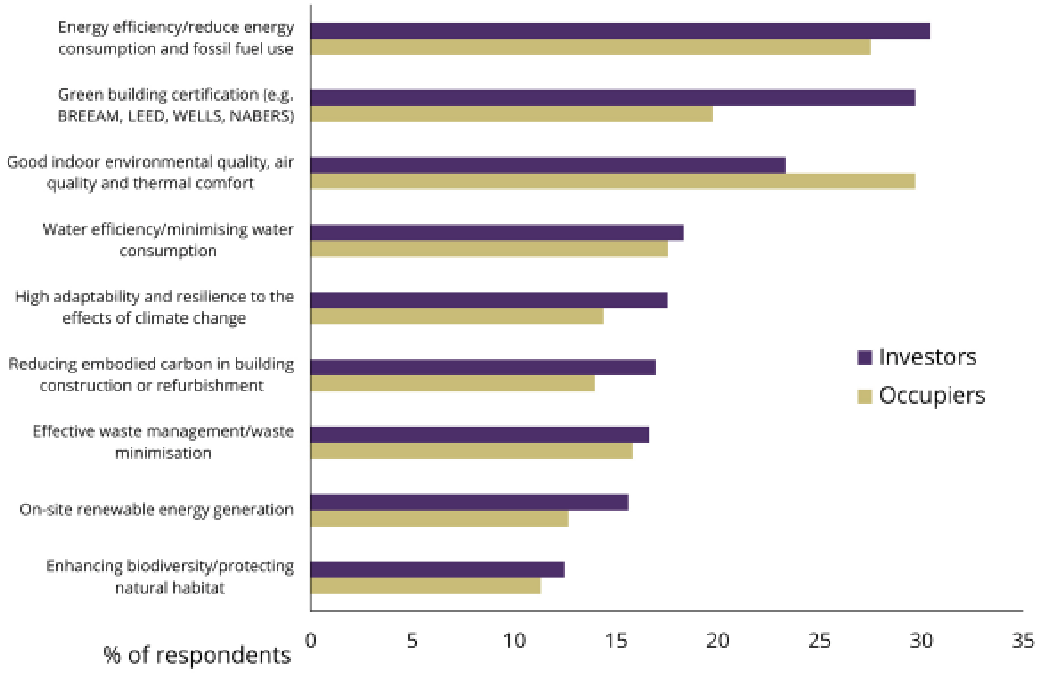
RICS then drilled into which features were deemed most important for occupiers and investors.

For investors, energy efficiency and reduced fossil fuel consumption came out top, followed by green building certification – such as BREEAM, LEED, WELLS and NABERS. Indoor environment quality, air quality and thermal comfort were deemed third priority.

Conversely for occupiers, indoor environment quality, air quality and thermal comfort was rated top priority, followed by energy efficiency. Green building certification was a fairly distant third.

The slight difference in priorities is logical – given occupants' primary concern will be for healthy, comfortable working conditions and investors will need to deliver those conditions while meeting environmental obligations and commanding a rental premium – which green building certification in turn delivers.

The report nodded to evidence of higher rental premiums afforded by green building certification, with Knight Frank finding and 8-18% sales price premium for green-rated buildings compared to equivalent buildings without a BREEAM or NABERS rating across prime office buildings in London, Sydney and Melbourne, depending on the level of green rating. CBRE research has found similar premiums apply to higher rated buildings.



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Cost vs. returns

High initial costs versus returns were cited as one of the biggest barriers to investors acquiring green buildings, with a lack of ROI evidence serving as a further drag.

Lack of investor knowledge, awareness and expertise in green real estate was a secondary but still significant factor, cited by around 30 per cent of respondents.

Closing such data and knowledge gaps were among RICS' key recommendations – with which EP&T Global wholeheartedly agrees.

The report points out that this is in investors' own interests given "the future risk to asset values can be substantial" if decarbonisation initiatives are not taken into account and environmental, social and governance (ESG) factors are ignored.

Getting back on track

To get the global industry back on track, RICS recommends a plethora of measures – from consistent carbon pricing aligned with policies focusing on energy efficiency, minimum energy performance standards and the circular economy to education and training. And critically, robust standards and tougher regulation: It's little surprise that Europe is leading the way in terms of investor-occupier supply and demand increases for greener buildings given regulations such as the Energy Performance of Buildings Directive and the Renovation Wave.

Meanwhile, digitalisation is a key enabler, per RICS, as it can help democratise access to critical information about materials, products and performance across the value chain.

As well as addressing the issue of fragmentation across the industry, access to data can help overcome concerns around costs versus returns. As such, RICS calls for the development of public-private partnerships to close key information and data gaps.

Smarter data partnerships

EP&T Global is keen to collaborate on such partnerships. Since 1993 the company has been capturing and leveraging buildings data to provide valuable insights and quantifiable business outcomes. It uses IPMVP – the International Performance Measurement and Verification Protocol – to ensure that energy efficiency and sustainability initiatives actually deliver.

Today EP&T Global provides data-enabled technology to a growing portfolio of building assets in over 26 countries throughout Asia, Australia, Europe, Africa, Middle East and North America.

EP&T's EDGE Intelligent System is a data repository incorporating 20-plus years of building energy efficiency knowledge – collecting and analysing more than 5.6 billion points of data per annum with proprietary algorithmic analysis and machine learning across more than 7 million^{sqm} of net lettable area and 523 commercial buildings.

EP&T Global's current portfolio, which monitors over 1 billion kWh annually, averages of 21% energy savings, enabling equivalent annual reductions in CO_2 emissions.

That data, technology and insight can help solve the cost-benefit and ROI issues flagged by RICS and the 4,600 industry professionals it surveyed as key blockers to driving decarbonisation – and get industry back on track towards net zero.

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