

# Disrupt Substitute Transform

# Drowning in sustainability

# What you thought

01

To what extent is climate change impacting your investment decision making?

02

What is the biggest climate related threat facing your business?

Pre Summit Survey

DST Summit 2020  
6-7 February  
Barcelona

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How do you rate each of the following sectors as a buying opportunity in 2020?  
(1 - not at all, 5 - it is a primary focus)

	1	2	3	4	5
Offices	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Industrial / Logistics	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Retail	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Residential	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Other operational real estate	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

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Within the 'shared economy', which sectors are you most likely to invest in? (Select two)

☐ Co-working ☐ Co-living ☐ Co-retail ☐ Co-warehousing ☐ Other (please specify)

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To what extent has the 'shared economy' impacted your investment decisions in 2020?

☐ Not at all ☐ Low ☐ Medium ☐ High

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To what extent is climate change impacting your investment decision making on a scale of 1-5?  
(1 - not at all, 5 - it is a critical focus)

☐ 1 ☐ 2 ☐ 3 ☐ 4 ☐ 5

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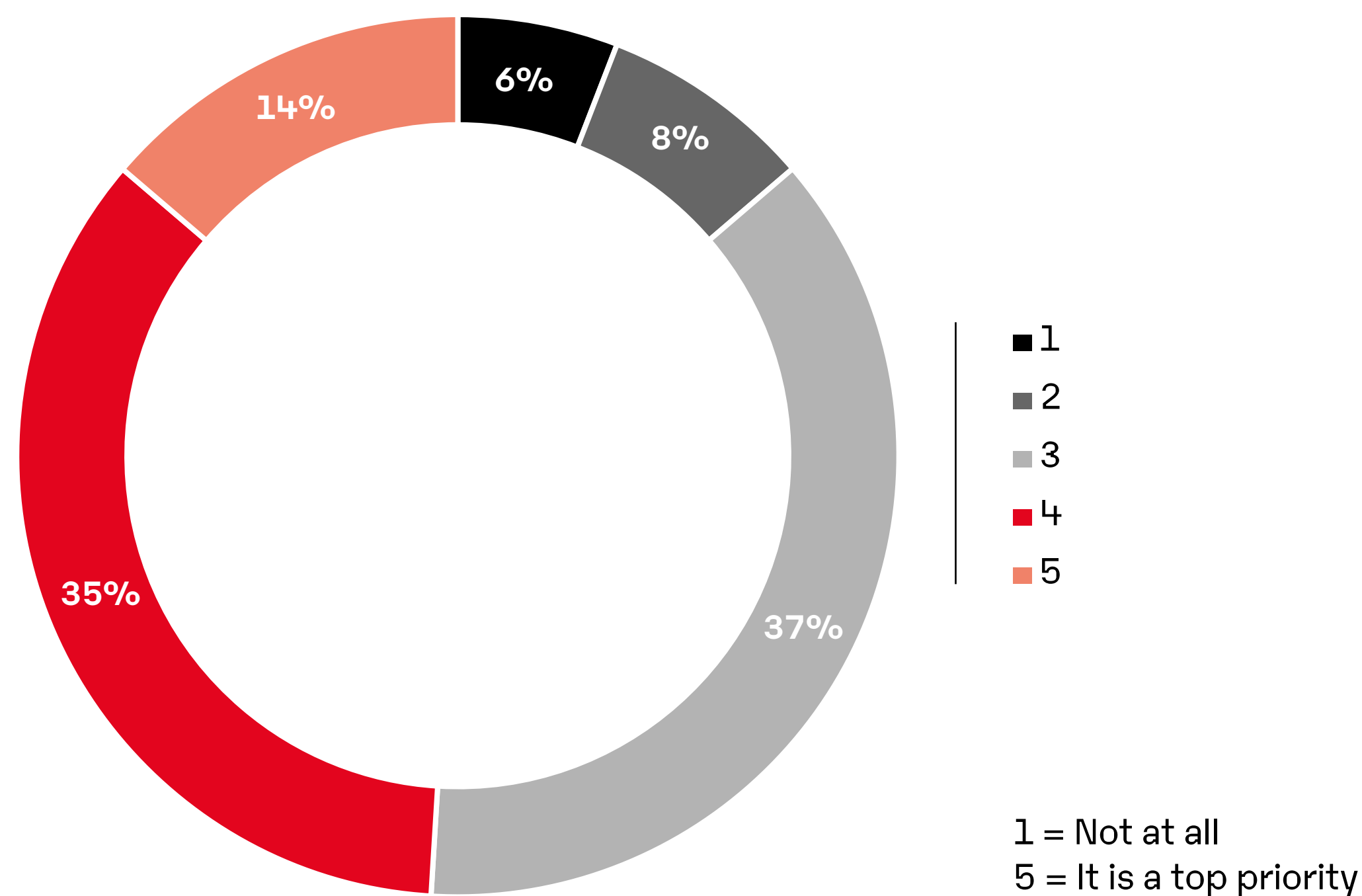
In your opinion, what is the biggest climate related threat facing your business? (Select two)

☐ Physical risk  
☐ Cost of retrofitting older property  
☐ Cost of future regulations  
☐ Reputation and brand risk  
☐ Tenant demand  
☐ Investor demand  
☐ Other (please specify)

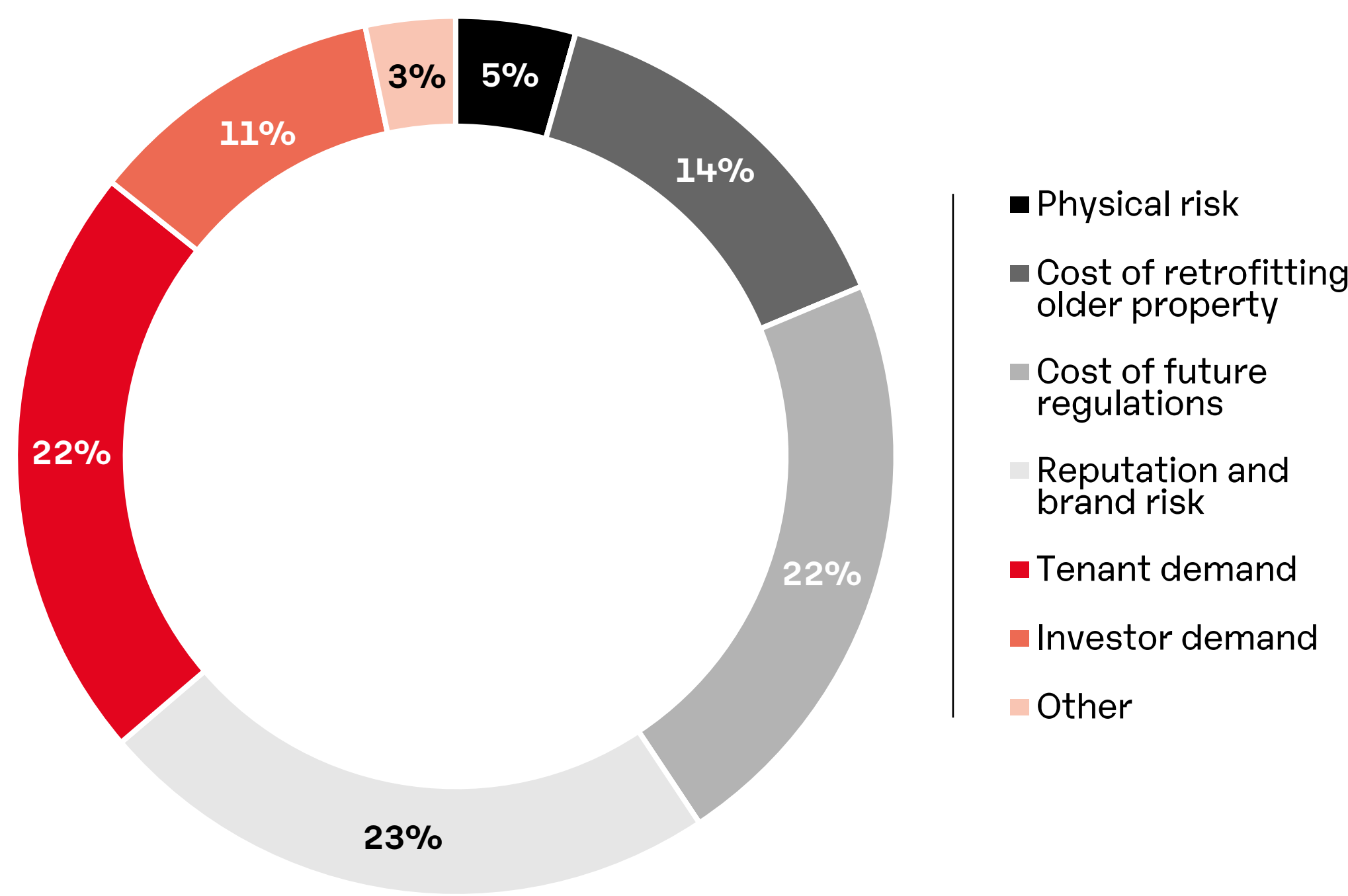
Submit

# What you thought

01 To what extent is climate change impacting your investment decision making?



02 What is the biggest climate related threat facing your business?





# Can you 'green' real estate?





# What will drive us to act?



## The regulators

- Building energy performance requirements
- Targets for carbon neutrality by countries, cities and companies
- Action on recycling and resource use
- Changing practices to mitigate climate risk – e.g. coastal defences, land use
- Action on air and water quality – e.g. congestion zones
- Planning – e.g. rights to light, floodplains
- Tax - e.g. Climate Change Levy in the UK
- Human rights - e.g. 150,000 premature deaths globally due to climate change (UN).



## Technology

- Greater energy and resource efficiency
- New sources of energy
- Reducing / capturing carbon, methane and other emissions and pollutants
- Transportation
- Material technology and building design
- Food production.



## The occupier

- Demographic change – what do millennials want?
- Changing social attitudes
- Corporate change
- Bankable covenants.



# Sustainable, low-carbon real estate: theory into practice

Eric  
Lounsbury  
Director – Ventures  
The Carbon Trust





# An economy fit for the planet





# Case studies



## £100m

Over £100 million has been invested through our Offshore Wind Accelerator into projects targeting specific needs, challenges and opportunities.



## €500m

We provided the methodology and assurance for Barclays' €500 million green bond, the first issuance from a UK bank used to fund domestic assets.



SAMSUNG  
Galaxy

## 40%

We have certified that the Samsung Galaxy S9 has a carbon footprint almost 40% lower than the Samsung Galaxy S4, released just five years before.



## 92%

We helped Carlsberg set an ambitious science-based target. By 2030 Carlsberg will reduce emissions from its operations by 92% compared to 2015 levels.





“

“Climate change has become a defining factor in companies’ long-term prospects...we are on the edge of a fundamental reshaping of finance.”

Larry Fink

**BlackRock**



# Real estate has a big challenge

Ambition vs reality



## Ambition

EU climate neutral by 2050

Net zero carbon (NZC) buildings.



## Reality

Modest cuts in last 30 years, but  
100% cut in next 30 years

Most 2050 buildings already built

~1% refurbishment rate / year

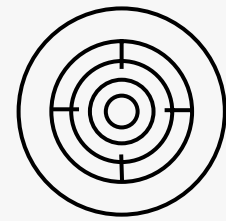
Radical energy targets for NZC

Persistent 'performance gap'

Investors want returns **and** 'impact'.



# Solutions



## Targets

Science based targets (SBTs)

Net zero carbon (NZC)



## Disclosure

TCFD

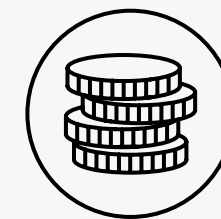
Investor / regulator requirements



## Asset selection / disposal

Stranded asset risk

Added value



## Capital investment

Refurbishment

Renewables



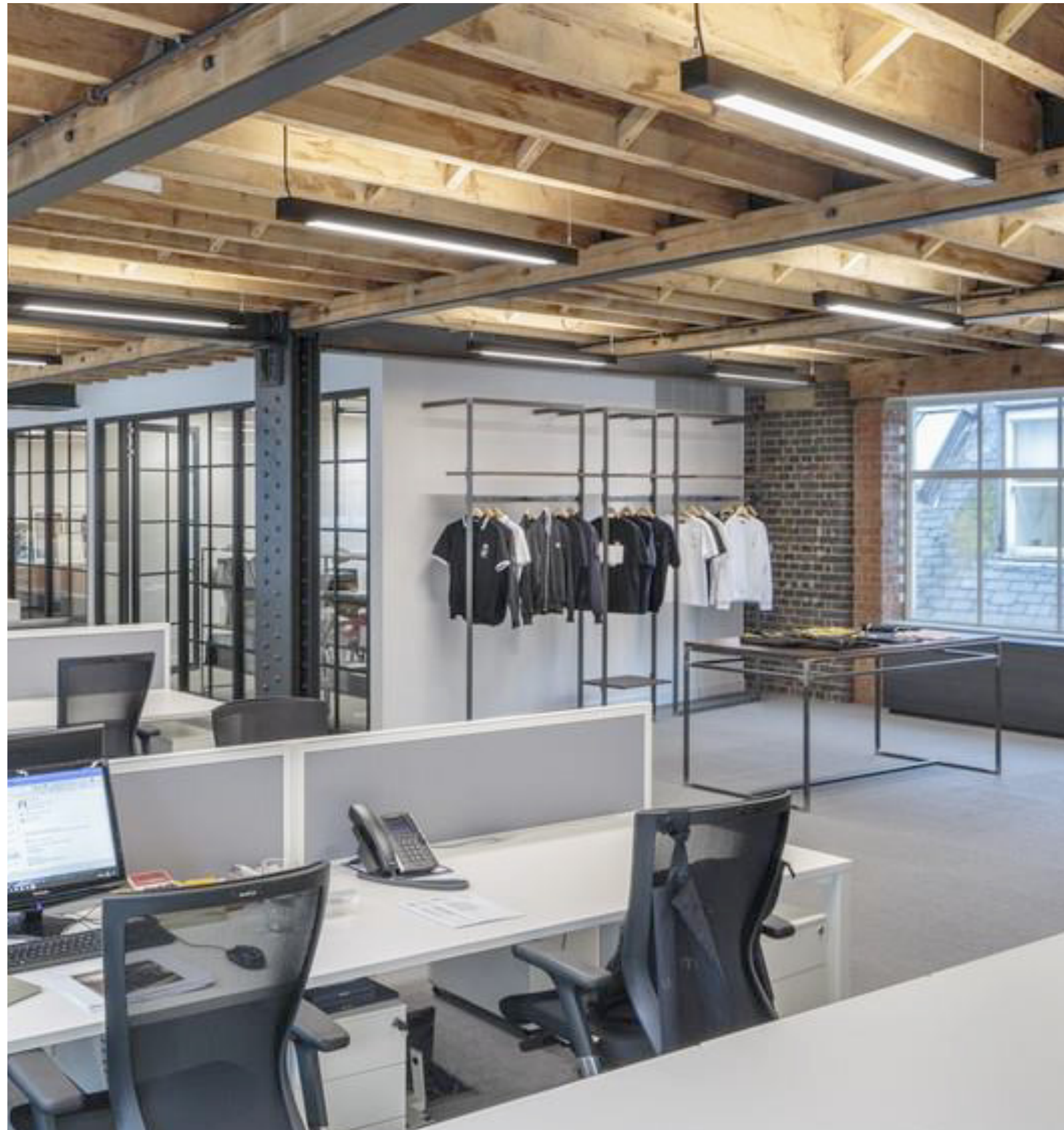
## Active management

Close the 'performance gap'

Own the tenant energy challenge



# Low Carbon Workplace fund



The Low Carbon Workplace fund builds on these principles

Case study: ~100-year old asset

Big commercial and environmental repositioning

Prelet as Fred Perry headquarters

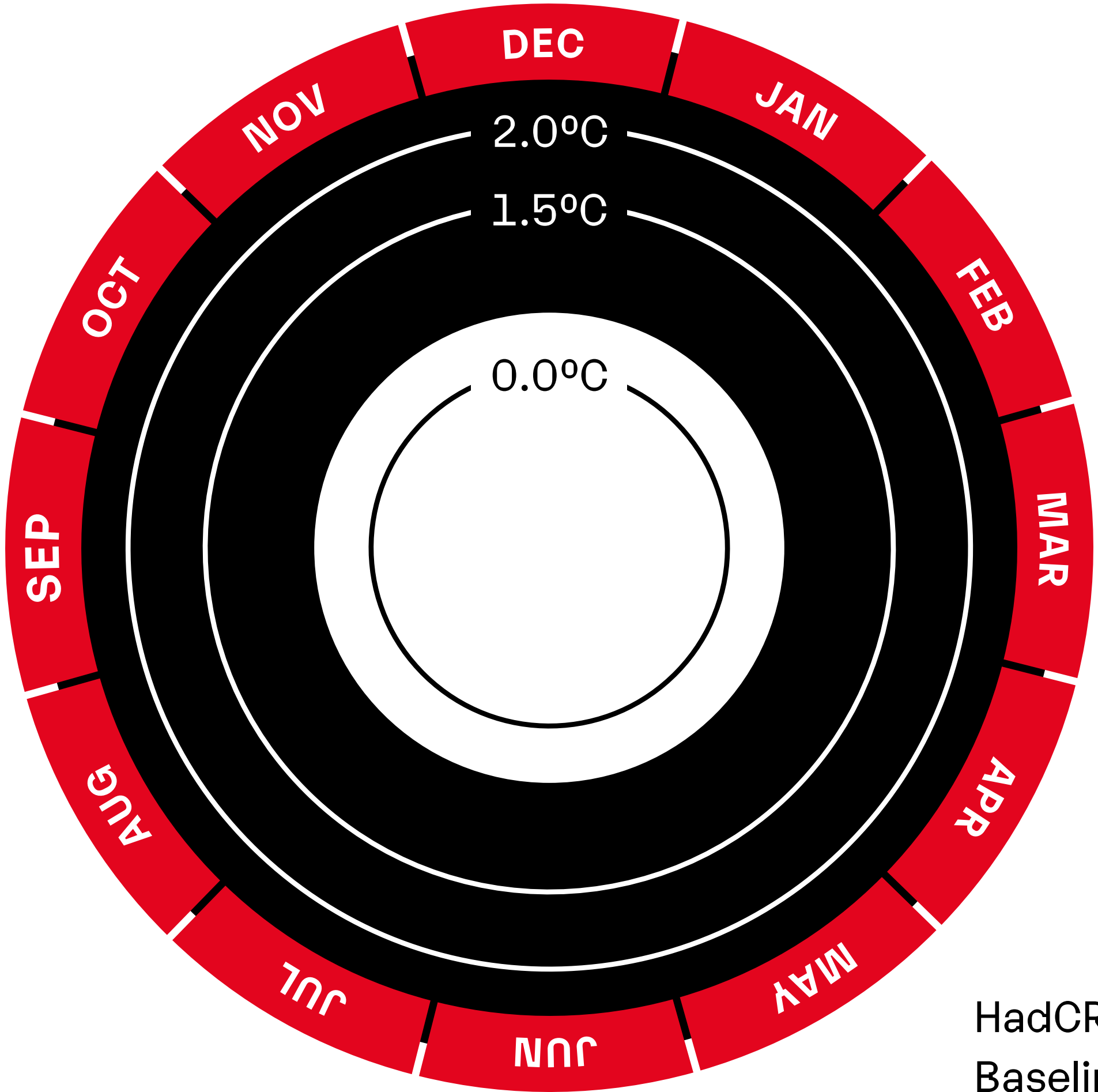
Great results...and many lessons!





# Global temperature change

(1850-2019)



HadCRUT 4.6  
Baseline: 1850-1900

# How do we 'green' real estate?

Elsbeth  
Quispel

Head of Strategic  
Consultancy & Sustainability



# Future proof your real estate portfolio

Understand your risks and take a strategic approach

## An integral sustainability approach

Integrating sustainability in portfolio management at different levels:

- Portfolio risk assessment – ensure you meet local regulatory requirements and provide insight into KPIs (energy, GHG, water and waste data)

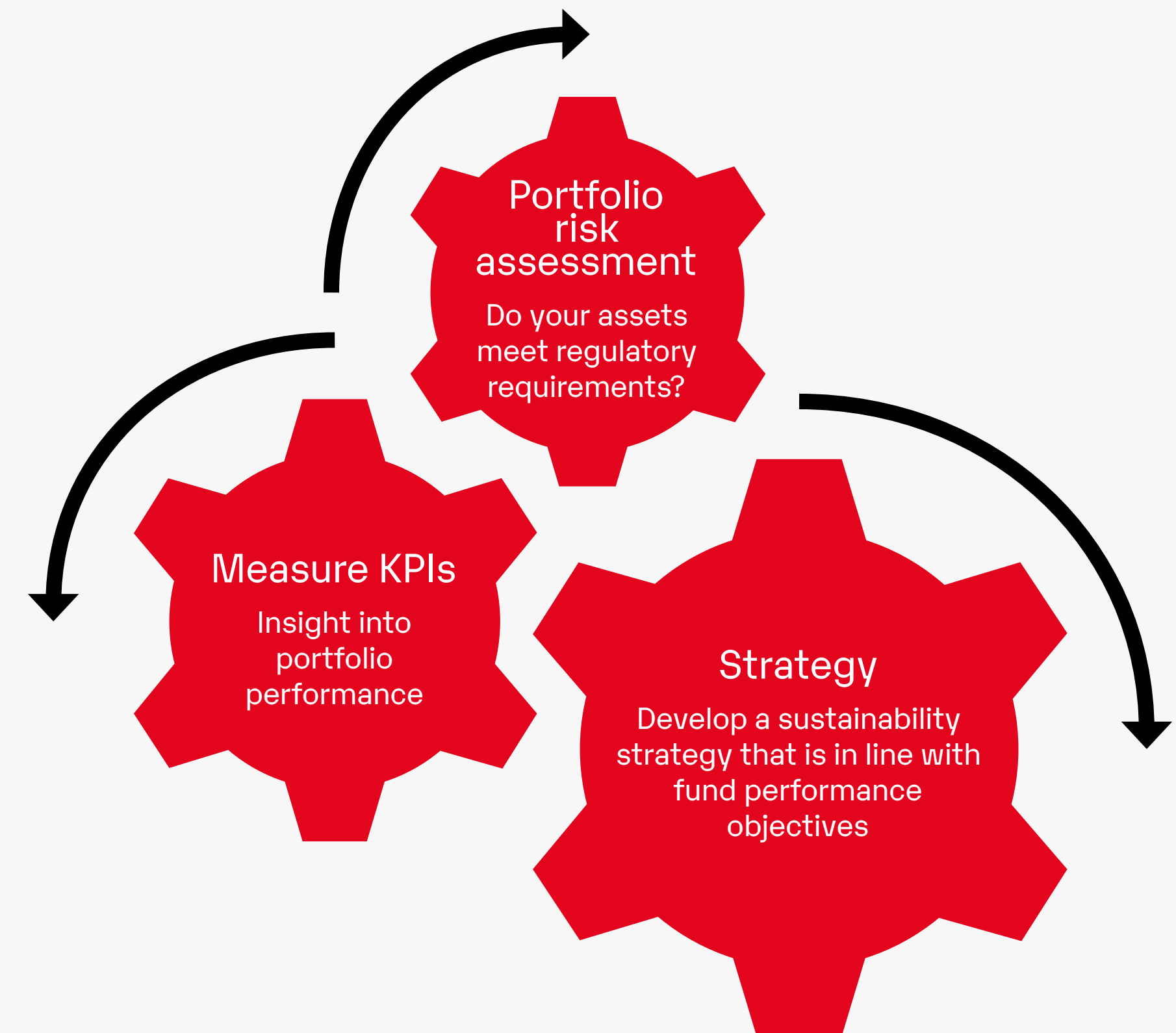


- Measure KPIs – get full insight into KPIs (energy, GHG, water and waste data)



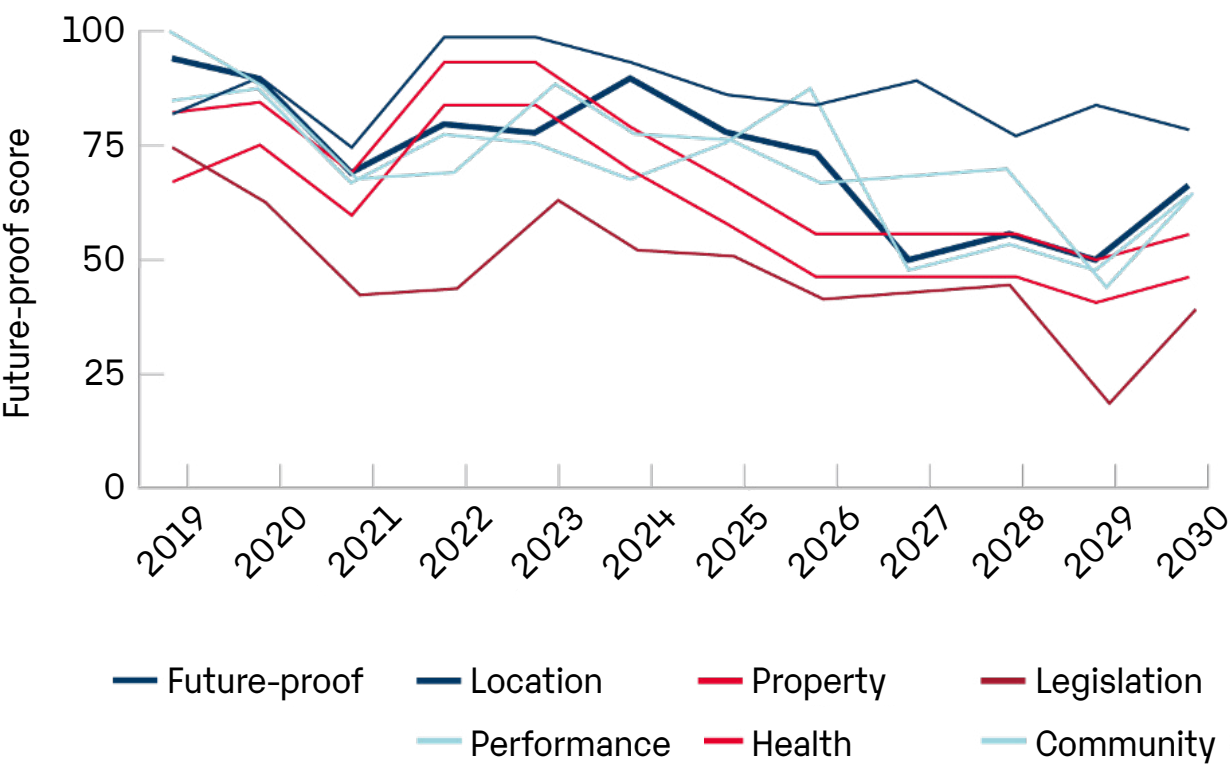
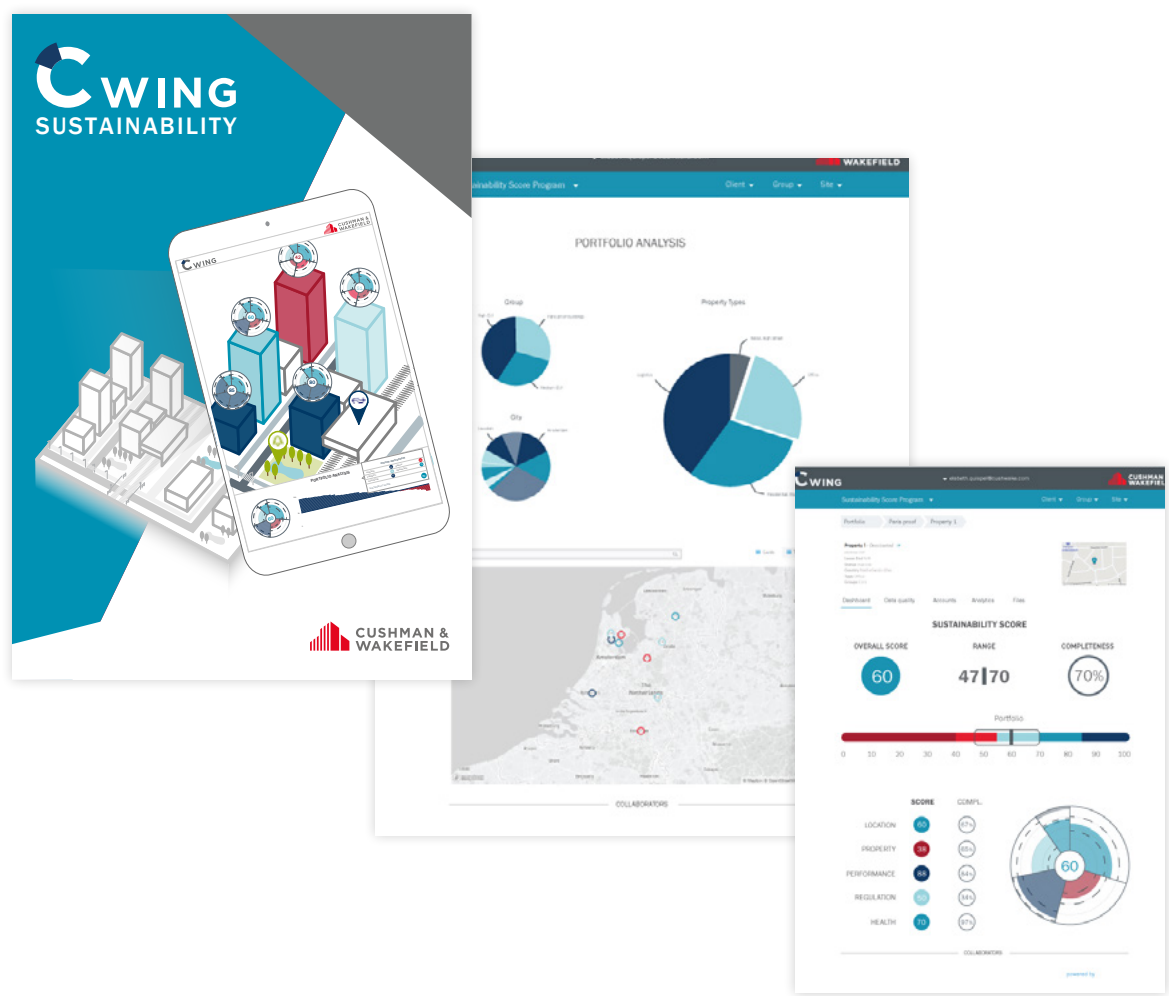
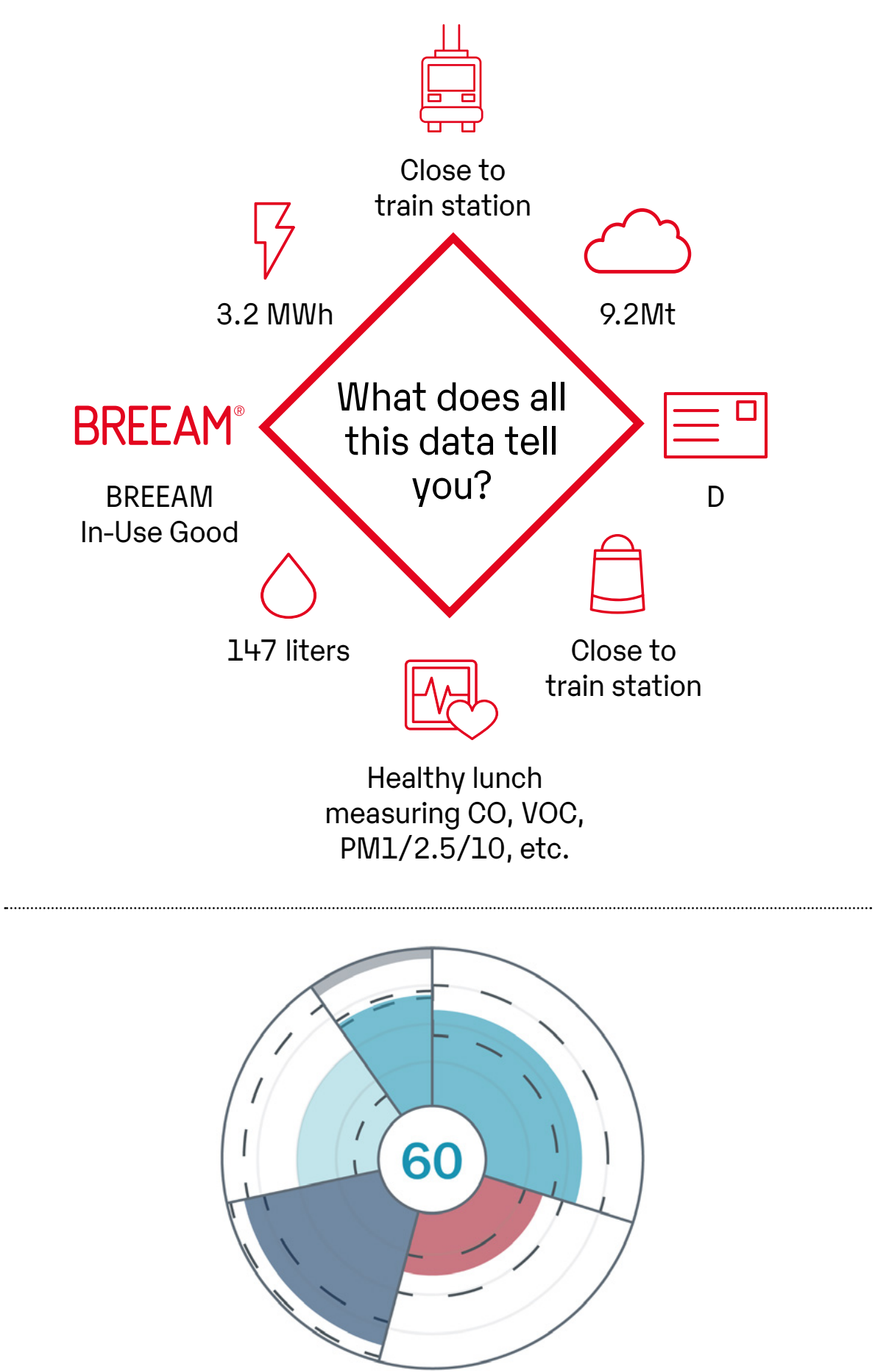
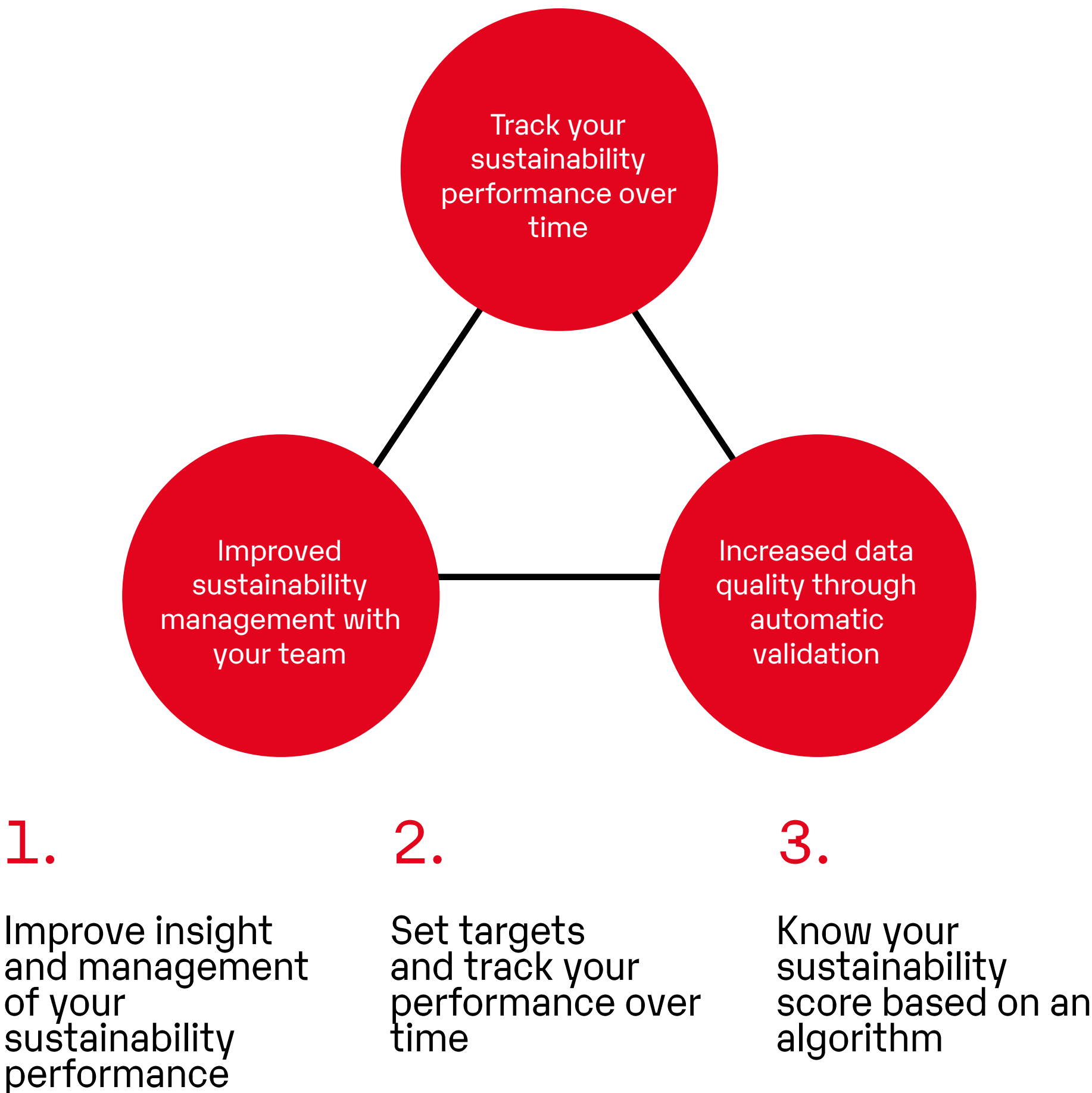
- Sustainability strategy – develop a real estate sustainability strategy aligned with (financial) performance objectives, combined with a pragmatic action plan.

## Sustainability is integrated in all aspects



# Sustainability score

CWing sustainability – a portfolio analysis tool





# Sustainability score

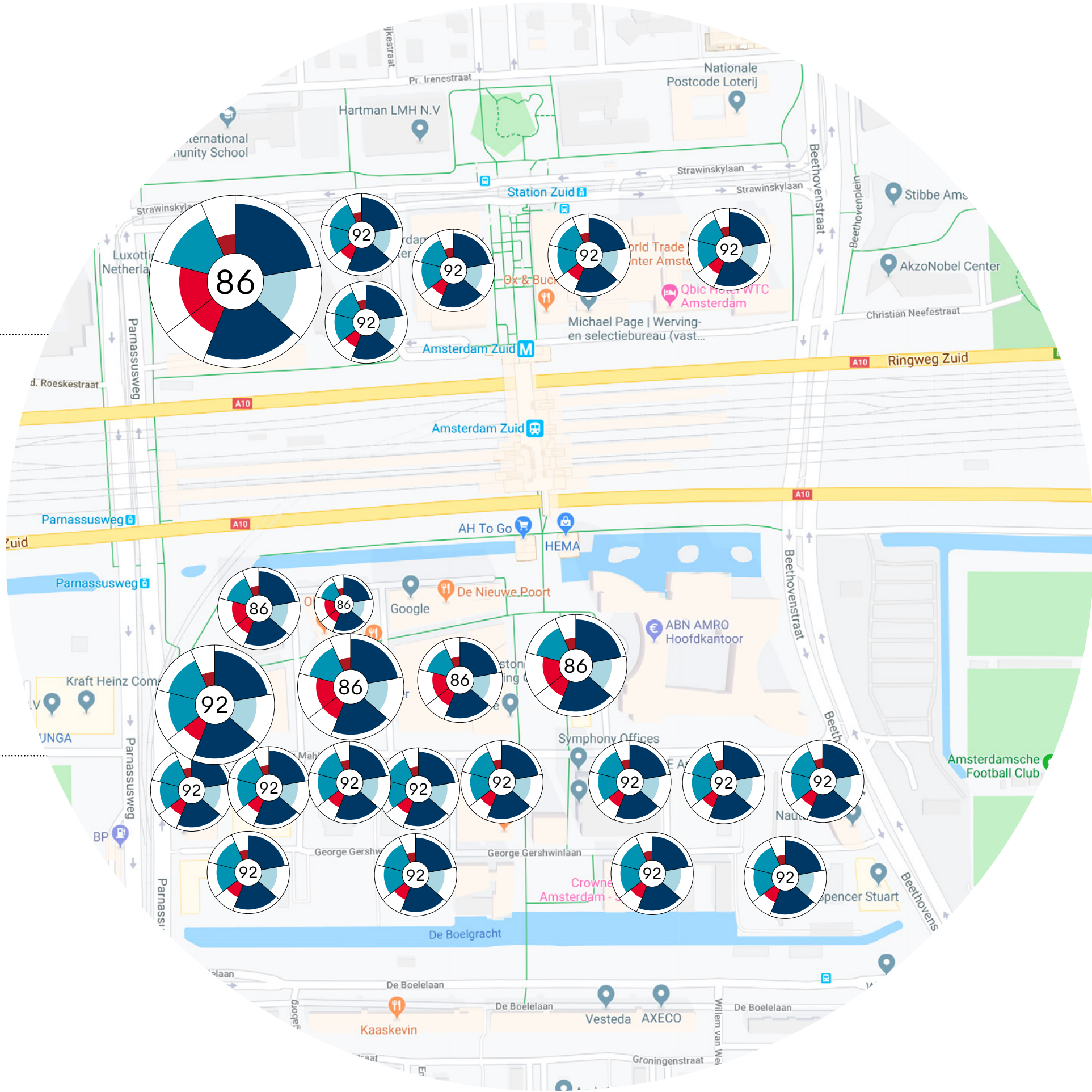
CWing sustainability – a portfolio analysis tool



Atrium



UN Studio





# Impact of sustainability on asset value

## Research study outcomes



## Key findings

- Sustainability indicators: energy efficiency, building certifications and energy rates to be compared against 'brown' buildings
- Greener buildings lead to price premiums, although this 'green' premium is usually not that significant
- 'Brown' discounts are observed: buildings that do not have sustainable measures are often sold or rented on lower values
- The market is currently not advanced enough to quickly recognise greener buildings and focuses merely on visible indications, such as glazing, as well as certificates and ratings
- Changing environmental laws and regulations will change the impact that sustainability measures have on asset value.

## Empirical research on office buildings in Milan

- Premium price, especially for high levels of sustainability
- The rate of absorption of certified assets reflects a preference for green properties (2x absorption rate, 4x for the pre-let segment)
- Better certifications show higher returns on investment and lower operating costs over the life of the property
- Significant premium price for properties certified at the highest levels (Gold and Platinum) with price differentials of 7% and 11% respectively.

**'Green buildings benefit from a significant increase in market value and provide benefits to the community and to the environment.'**



# Pricing implications

Case studies from a valuation and business case perspective



## EDGE Sloterdijk, Amsterdam

- 48,000 sq m re-development of an office building from 1970
- Cutting-edge and sustainable building, meeting the highest standards for sustainability, technology and health & wellbeing
- Energy label A, BREEAM 'Outstanding'
- EDGE Technologies sold the building to Hana Alternative Asset Management in 2019
- Rent level increased from €140 to €225 / sq m

**Improved leaseability, valued by buyers, preconditioning for financing, improved interest rates.**



## Solar panels on a logistics asset

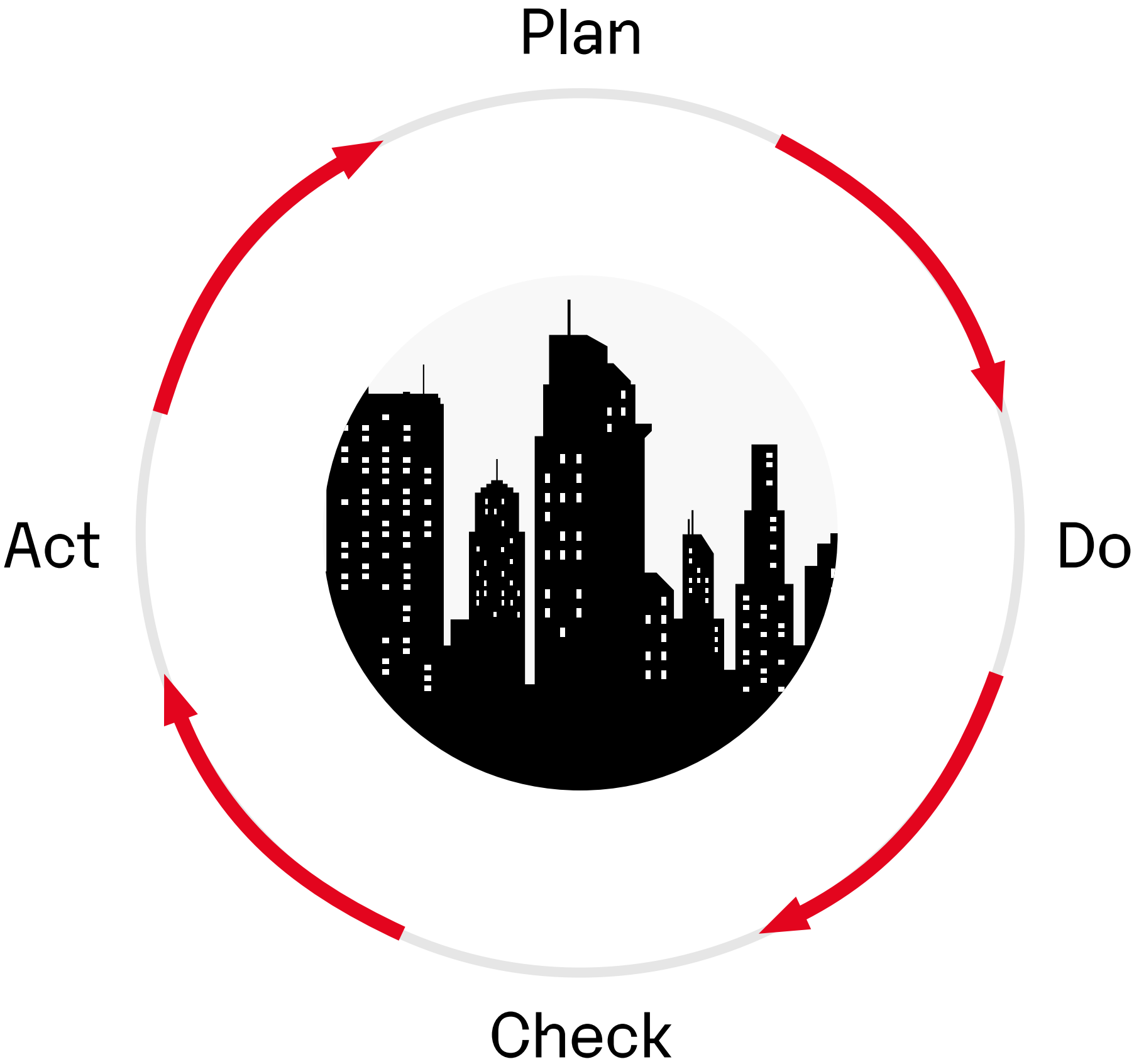
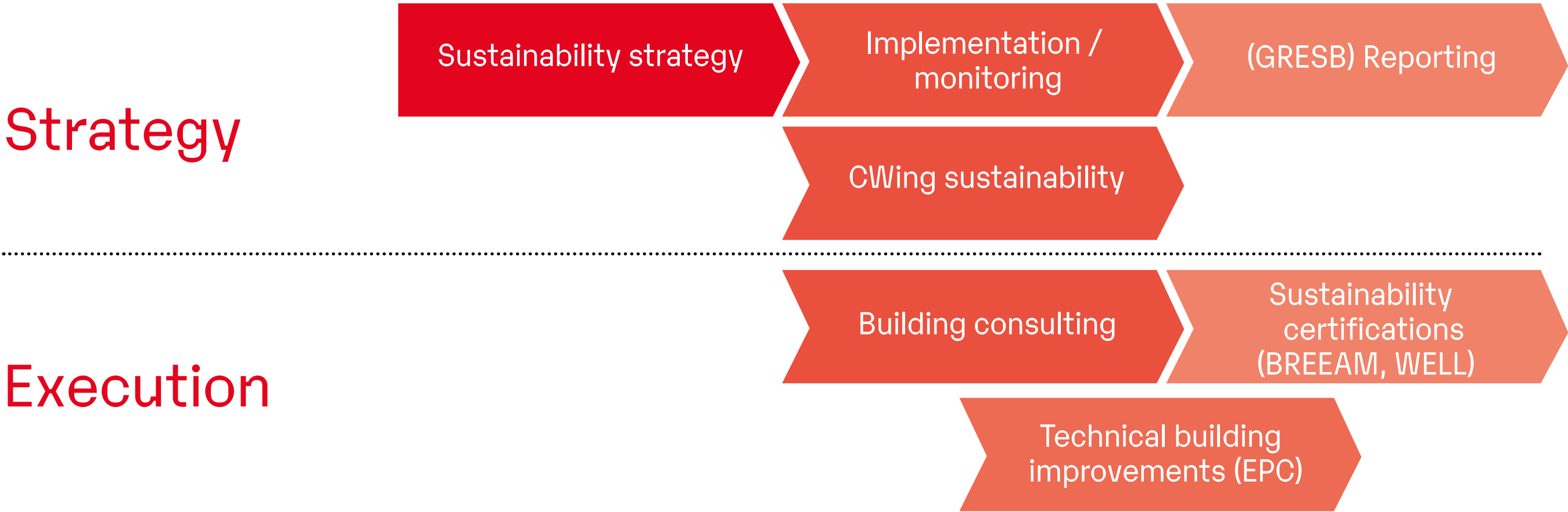
- Recent logistic asset > 45,000 sq m LFA
- 13,000 solar panels installed in 2017 and 2018 (€2,664,000 investment by owner)
- Estimated annual energy production: 2,900,000 kWh
- **Direct value impact:**
  - €3,881,211 (lease period of 14 years)
  - Investment: €2,664,000 = 'profit' for the owner: €1,217,221
- **Indirect value impact:**
  - Complex due to lack of market evidence
  - However, positive (better financing terms due to sustainability measures)
  - Assuming increased returns of 0.10%, impact = €240,000.



# Strategy and execution

Our recommended way forward

We use our in depth sustainability knowledge and expertise, as well as our digital and technical capabilities, to support our investor, banking and occupier clients to set targets, implement required actions, manage, benchmark and value the sustainability performance of their portfolio.



# How to act?

David  
Hutchings

Head of Investment Strategy  
EMEA Capital Markets



Argie  
Taylor

Head of APAC  
Capital Flows





# How to act

The theory



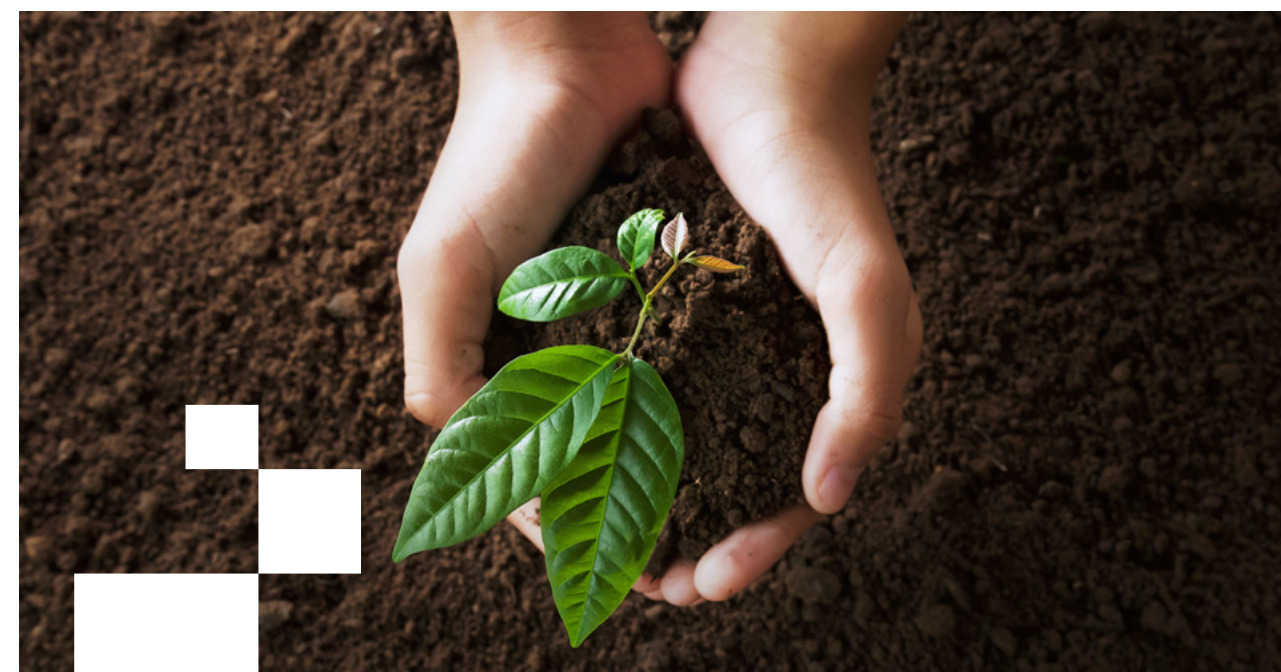
Stop flying



Reduce meat consumption



Walk to work



Plant a tree



Take out insurance



# How to act

Anticipate your market

HOW SPECIFICATION IS CHANGING: A TYPICAL GRADE A OFFICE	WAS	IS	WILL BE
Identity	Business	Technology	Appeal to talent
Location	In CBD	Proximate to CBD	Accessible to CBD
Transport	Car and public transport	Local public transport	Local and long-distance public transport
Connectivity	Fixed	Fixed and mobile	Fixed, mobile and constant
Internal specification	Institutional standard	Occupier standard	Flexible and connected
Environmental quality	Nice to have	Certificated	Measured air, water, wellness and carbon negative
Construction	Meets building standards	Meets building standards	Focus on embedded carbon
Tenant	Single - AA	Weighted average - A	Multi-let, varying expiries
Key staff facilities	Parking	Showers, bike rack	F&B and wellbeing
Climate risk	Catered for in building specification	Catered for in building specification	Strategy and building specification



# Cost to act

Raising your property to meet occupier demands

OFFICE GRADE*	EPC RATING	POTENTIAL REFURB COSTS (£ / SQ FT)				
		STANDARD	B EPC %	B EPC RATE / SQ FT	WELLNESS	SMART BUILDING
1 Over 50 years old, heating only	E	£165-240	14.1%	£23-34	£5 / sq ft	£5 / sq ft
2 Mid 1990s, partly glazed	G	£125-180	37.3%	£47-67	£5 / sq ft	£5 / sq ft
3 Mid 2000s, fully glazed	F	£115-150	44.7%	£51-67	£5 / sq ft	£5 / sq ft
4 Mid 2010s, at market standard	E	£95-150	45.7%	£43-69	£5 / sq ft	£5 / sq ft

\*A hypothetical scenario for a London office building

# How to act?

Our conclusions

**New purchases will be impacted in the typical hold period**

**Legacy portfolios need to be safeguarded or sold – fix it or sell it**

**'Brown discount', not a 'green premium'**

**But represents a profit opportunity not just a cost**

**Reputational impact must be considered**

**Be ready to define the new 'prime'.**

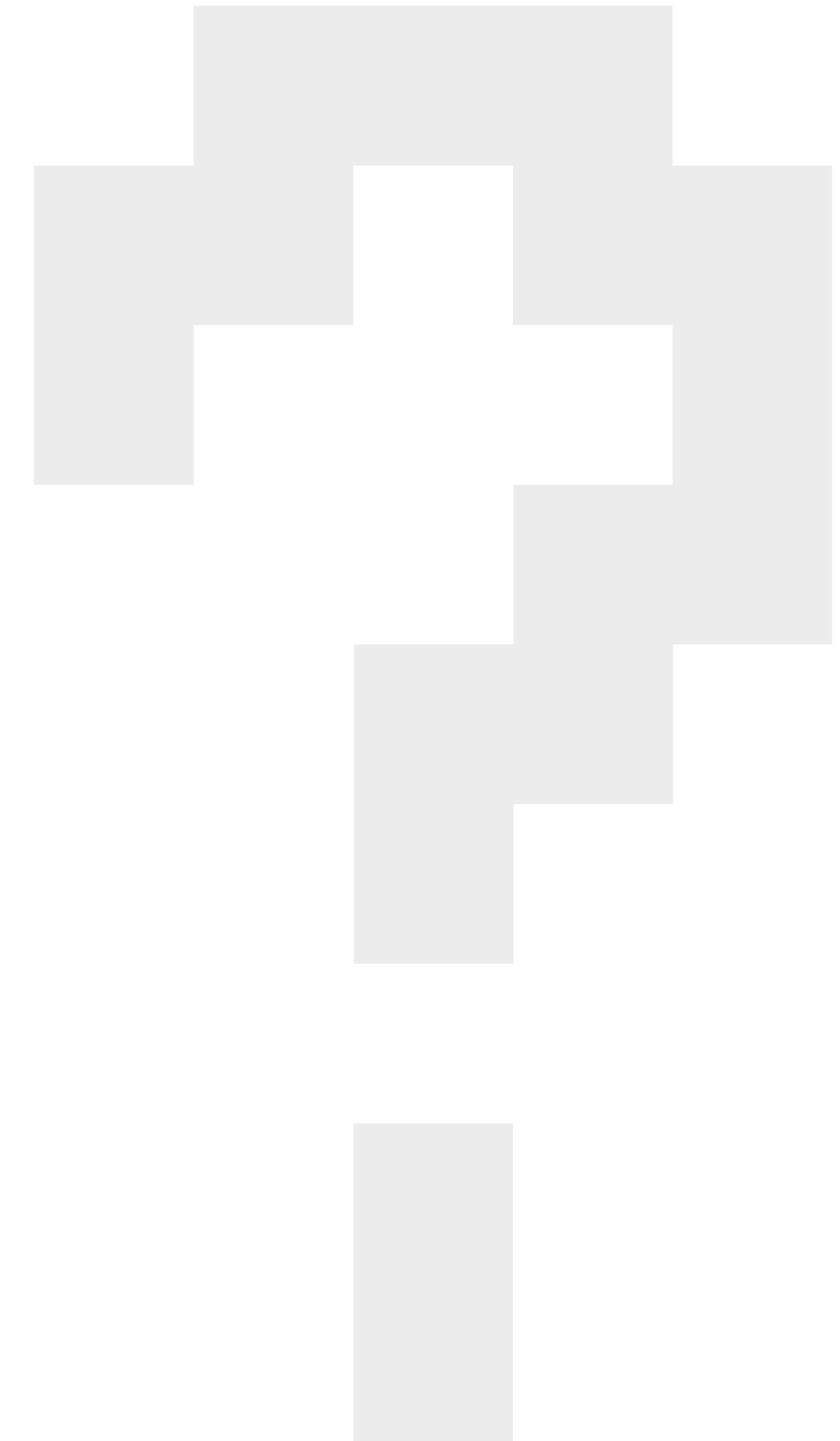
# Workshop breakouts

01

To what extent do you agree that now is the time to act?

02

What are the top three areas of action that can be taken in 2020?





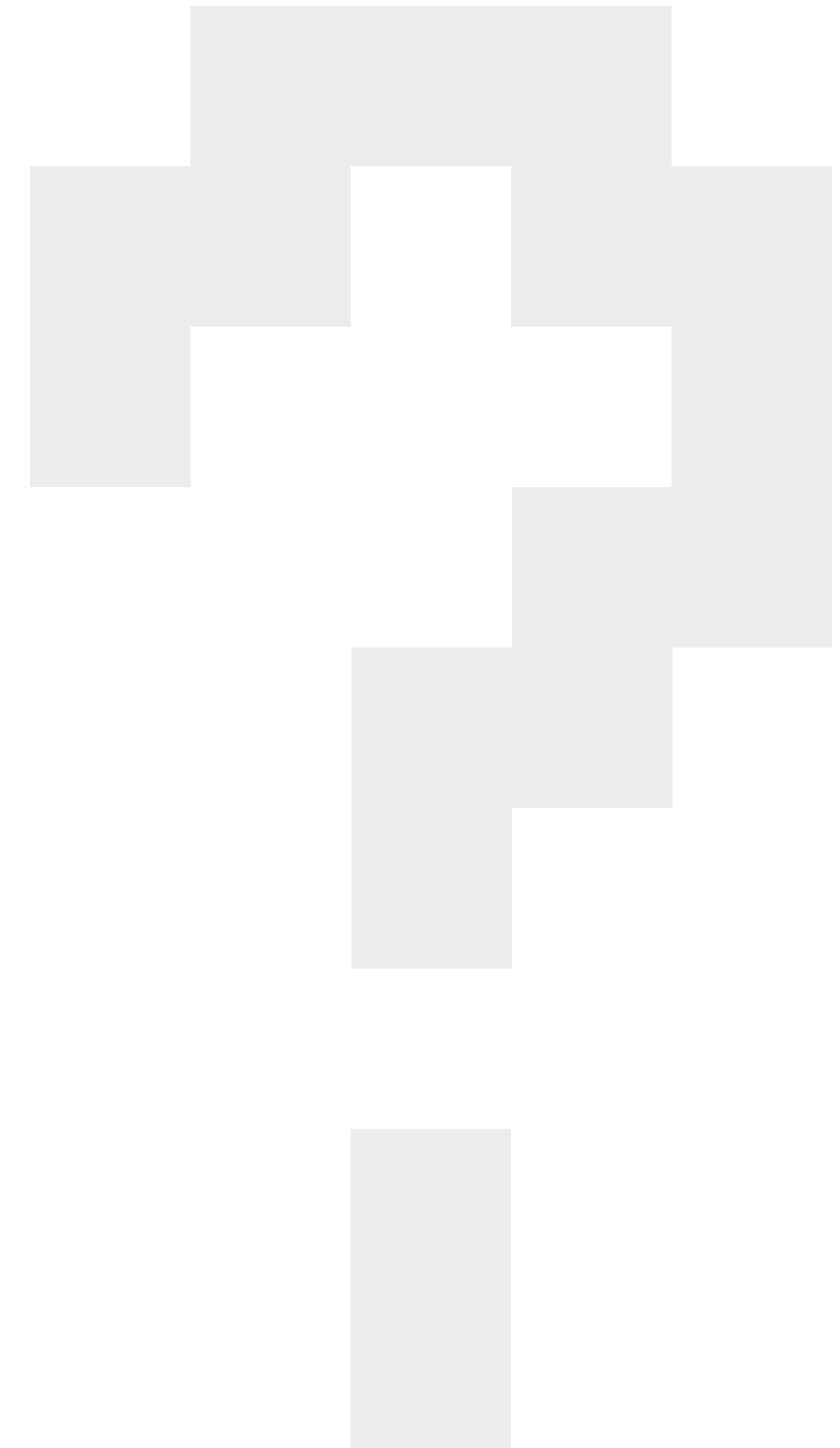
# Workshop feedback

01

To what extent do you agree that now is the time to act?

02

What are the top three areas of action that can be taken in 2020?





# Thank you!

Lunch will be served at 12:45 in Lokal & Terraza.

Please now make your way to the restaurant.

# Disrupt Substitute Transform