



# **BEIS NET ZERO REVIEW: BETTER BUILDINGS PARTNERSHIP (BBP) RESPONSE TO CONSULTATION**

# MEMBERSHIP

## BETTER BUILDINGS PARTNERSHIP MEMBERS



## MANAGING AGENTS PARTNERSHIP MEMBERS





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## INTRODUCTION TO THE BBP

The responses to the following questions were developed by collating the views of the Better Buildings Partnership's membership, representing 50 of the largest commercial property owners in the UK. Our members represent over £270bn of AUM (Assets Under Management), and alongside our sister organisation - the Managing Agents Partnership - manage over 30,000 buildings.

The BBP has performance data, case studies and market knowledge of high relevance to the Government in formulating effective policy in this area and would be happy to provide more details and briefings to Government to assist in this process. Of relevance to this call for evidence are:

- The BBP Climate Commitment, a ground-breaking commitment requiring signatories to commit to net zero, covering all investments, scope 1, 2 and 3 emissions and whole life carbon.
- The Real Estate Environmental Benchmarking project, a publicly available operational benchmark of environmental performance for commercial property in the UK with data from more than 1,100 commercial properties and enabling our members to track the progress of their portfolios towards net zero.
- NABERS UK – a voluntary scheme based on bridging the performance gap and rating energy performance in use. The scheme is aimed at ensuring that commercial buildings overcome a design-for-compliance culture that does not deliver on its energy efficiency promises by adopting a 'Design for Performance' approach in new buildings and enabling market transparency by rating energy performance in use for occupied buildings.

More details on these projects can be found in our detailed responses to the call for evidence.

Should you require any further information on any aspect of this submission please contact Sophia Tysoe, Stakeholder Engagement and Communications Manager at [s.tysoe@betterbuildingspartnership.co.uk](mailto:s.tysoe@betterbuildingspartnership.co.uk) and Adam Smith, Climate Change Programme Lead at [a.smith@betterbuildingspartnership.co.uk](mailto:a.smith@betterbuildingspartnership.co.uk).

## EXECUTIVE SUMMARY – KEY POINTS FROM OUR SUBMISSION

The response to this call for evidence has been put together in the brief time available drawing from the experience of the BBP and its members, who have participated in a workshop to gather evidence in response to the call for evidence. The BBP has been working with its members since 2008 to support its members in improving the sustainability performance of their commercial real estate portfolios. This response therefore focuses on commercial real estate. The BBP works collaboratively with a wide range of organisations who cover other parts of the built environment sector who will also be submitting their own responses.

In summary, BBP members consider that addressing climate change is critical to the growth and prosperity of the commercial real estate sector. It is therefore vital to retain the UK's net zero target and strengthen the delivery mechanisms to ensure that the private sector can play its part in reducing emissions and securing the economic growth opportunities that net zero presents:

1. The rationale for the UK's net zero target was based on the **overwhelming scientific evidence** that demonstrates the need to achieve substantial emissions reductions across the economy to avoid and manage the consequences of climate change. Our members consider that **this rationale remains sound** and that it is vital to retain this target to continue to provide much needed certainty that the market can then plan, prepare, and deliver against.
2. Fundamentally, our members consider the aims of prosperity and growth, and delivering net zero, to be mutually reinforcing. **Net zero carbon is consistent with economic growth and competitiveness** and indeed presents a significant opportunity to contribute to both - at the firm level and the national level.
3. Commercial property owners are already **orienting their businesses, supply chains and investment processes towards net zero** in response to pressure from investors, occupiers, and a recognition of the value proposition of doing so.
4. Government needs to provide **clarity and consistency, long-term policy, and targeted interventions** to support market leaders, encourage innovation, develop the UK skills base, and focus on performance outcomes. We urge the government to maintain its focus on the UK's existing decarbonisation commitments and to continue adding to the milestones and other tools that can help us achieve them. We specifically ask Government to:
  - a. Provide a clear, consistent, and stable policy environment – retaining the Net Zero target.
  - b. Publish responses to the consultation on MEES and the introduction of a performance based mandatory disclosure scheme for commercial buildings.
  - c. Align with industry best practice and timelines for implementation – bringing forward the Future Homes Standard and Future Building Standard
  - d. Introduce a fit for purpose regulatory framework to enable the use of sustainable building materials
  - e. To regulate embodied carbon by requiring whole life carbon assessments
  - f. To develop a performance-based rating system to sit alongside current EPC (Energy Performance Certificate) ratings
  - g. Government-backed best practices in Public Procurement to set a new standard for sustainable development
5. This will enable property owners to capitalise on the growth opportunities by providing them with the confidence to invest in:
  - a. **improving their buildings** in line with net zero
  - b. **innovation and technologies** that will contribute to decarbonisation of buildings
  - c. **developing the skills** needed to deliver the transition

## COMMERCIAL REAL ESTATE & NET ZERO CONTEXT

The UK has reduced emissions by 44% while growing the economy by 78% between 1990 and 2019. If viewed on a consumption basis – with imports and exports, and shipping and aviation included, emissions have fallen by 11% of this same period. This supports the view that the economic growth and decarbonisation are not mutually incompatible. At the BBP our members consider that the aims of prosperity and growth, and delivering net zero, are in many regards mutually reinforcing. For several our members, investor, and occupier sentiments towards net zero have grown so strong in recent years that many have set this as a clear organisational aim. More than half of the BBP membership has set an organisational target for net zero by or before 2050. 31 commercial property companies have signed up to the [BBP's Climate Commitment](#), publishing detailed delivery plans for how they will achieve net zero across their investment, management, and development activities.

The commercial property market directly employs more than 1.2m people and contributes over £100bn to the UK's economy each year – about 7% of the total.<sup>1</sup> The net zero transition is seen by our members as

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<sup>1</sup> <https://bpf.org.uk/about-real-estate/>

a significant value creation opportunity and one that is likely to shape the strategies of their business over the coming years – and they have already begun to orient their activities towards it.

Driven by the certainty of the UK's long-term, legally binding net zero policy, several active projects within the real estate sector have sought to define net zero for real estate. Common across these projects has been an understanding of the benefits of having a universally agreed target. Common also has been the acceptance that credible net zero definitions and pathways must implement the 'energy hierarchy' to ensure that energy demand is reduced first before offsetting, and to prevent greenwashing.<sup>2</sup>

Across the built environment sector, businesses, industry bodies and professional institutions are embedding net zero in their future strategies. Collectively these initiatives cover all aspects of the real estate sector across all different asset types, new and existing buildings, and different stakeholders in the built environment – all of which have embedded net zero in their business strategies. Examples of specific projects include:

- The [BBP Climate Commitment](#) was launched in 2019 and requires signatories to publish net zero carbon pathways and delivery plans, disclose the energy performance of their assets and develop comprehensive climate resilience strategies. The commitment now represents over £380bn combined AUM and over 11,000 properties globally. The BBP encourages all property owners to establish Net Zero Carbon Pathways and become signatories to the Commitment. Signatories of the Commitment are supported by the BBP through an ongoing programme of work and specific frameworks for implementation including the [NZC \(Net Zero Carbon\) Pathway Framework](#) and [Climate Resilience Guidance](#).
- In November 2021, the UKGBC (UK Green Building Council) launched the Net Zero Whole Life Carbon Roadmap at COP26, a common vision and agreed actions for achieving net zero carbon in the construction, operation and demolition of buildings and infrastructure in the UK.<sup>3</sup>
- The UK Net Zero Carbon Buildings Standard will enable industry to robustly prove their built assets are net zero carbon and in line with UK climate targets. Leading industry organisations BBP, BRE, the Carbon Trust, CIBSE (Chartered Institution of Building Services Engineers), IStructE, LETI (London Energy Transformation Initiative), RIBA (Royal Institute of British Architects), RICS (Royal Institution of Chartered Surveyors), and UKGBC have joined forces to champion this initiative.<sup>4</sup>
- BRE, the Carbon trust, CIBSE, CIC, CIOB, ICE, IStructE, RIBA, RICS and UKGBC are collaborating to develop the Built Environment Carbon Database (BECD) for the UK. The database is envisioned to become the main source of carbon estimating and benchmarking for the UK construction sector and a practical instrument to support the decarbonisation of the built environment.<sup>5</sup> The database will be developed to collect and supply product data and entity level data to the industry through its own portal and by interacting with existing databases and software solutions.
- Whole Life Carbon Network: A project from 2019 to 2021 led by Simon Sturgis with approximately 70 industry carbon experts working to clarify definitions and variables to improve consistency of reporting. Their 2021 publication provides a common set of definitions for net zero.<sup>6</sup>
- RIBA 2030 Climate Challenge: RIBA has developed the 2030 Climate Challenge to help architects design within a climate conscious trajectory. The 2030 Climate Challenge provides a stepped approach towards reaching net zero. The 2030 Climate Challenge sets a series of targets for practices to adopt to reduce operational energy, embodied carbon, and potable water.<sup>7</sup>
- BPF (British Property Federation) Climate Pledge: The BPF Net Zero Pledge calls on BPF members to be net zero carbon by 2050 at the very latest. Members who sign the Pledge commit to three actions: a). Members must sign up to net zero targets and plans, b). Members must commit to sharing research, knowledge and insight on an open-source basis and c). Members must commit to supporting each other, and the wider industry, to speed the transition to net zero.<sup>8</sup>

## 1. How does net zero enable us to meet our economic growth target of 2.5% a year?

<sup>2</sup> <https://www.ukgbc.org/181001-defining-net-zero-carbon-buildings-get-involved/>

<sup>3</sup> <https://www.ukgbc.org/ukgbc-work/net-zero-whole-life-roadmap-for-the-built-environment/>

<sup>4</sup> <https://www.nzcbuildings.co.uk/>

<sup>5</sup> <https://www.becd.co.uk>

<sup>6</sup> [https://b80d7a04-1c28-45e2-b904-e0715cface93.filesusr.com/ugd/252d09\\_879cb72cebea4587aa860b05e187a32a.pdf](https://b80d7a04-1c28-45e2-b904-e0715cface93.filesusr.com/ugd/252d09_879cb72cebea4587aa860b05e187a32a.pdf)

<sup>7</sup> <https://www.architecture.com/about/policy/climate-action/2030-climate-challenge>

<sup>8</sup> <https://bpf.org.uk/net-zero-pledge/>

As stated above, the BBP members consider the pursuit of net zero and economic growth to be mutually reinforcing, with growth opportunities created through:

- Job creation
- Strengthening energy security
- Reducing costs
- Attracting and retaining investment
- Stimulating innovation

Each of these growth opportunities are explored in more detail below.

The net zero growth opportunity provides significant potential for **job creation** across a range of technical, professional, and auxiliary roles:

- An Ecuity/Local Government Association report found that 1.38 million low-carbon jobs could be created across the UK by 2050.<sup>9</sup> With the most recent ONS estimate of 202,000 green economy jobs, this implies growth rate of 6.4% per year. The LGA estimate that 700,000 green jobs could be created by 2030, reflecting the more immediate opportunities in retrofitting homes; other jobs will be focussed on low-carbon electricity (mostly solar panels and offshore wind) and low carbon heat (heat pumps and hydrogen boilers).<sup>10</sup>
- An earlier paper by Ricardo Energy and Environment for the CCC (Climate Change Committee) suggested the number of jobs in the “Low carbon and renewable energy economy” could be around 2.5 million by 2050.<sup>11</sup> Specifically in the built environment, these jobs will include those delivering improvements to reduce emissions across entire the lifecycle – design/pre-construction, materials/components, construction, operation, materials and retrofit, with 35,000 jobs by 2050 in green building fabric and 50,000 heat pump installation jobs predicted by 2050.
- The Construction Industry Training Board estimates need for additional 350,000 workers by late 2020s to meet net zero (on retrofits).<sup>12</sup>
- Analysis by Cambridge Econometric this year found that energy-saving measures could boost UK economy by £7bn a year.<sup>13</sup>
- There is significant opportunity for the supply of low carbon ‘homegrown’ energy technologies to be serviced by domestic markets, presenting a further opportunity for job creation.
- Developing the skills and competencies to deliver net zero will keep British businesses competitive in international market and to international investors. This is explored further in later questions. It will ensure that we remain competitive if other jurisdictions implement net zero laws of their own.<sup>14</sup>

The net zero transition presents an opportunity to radically transform the UK’s energy system and **strengthen our energy security** to reduce dependency on foreign sources and exposure to volatile energy markets. In recent months we have seen the potential for volatility of the international energy markets and the trade of fossil fuels. We have seen that the UK’s exposure to international trade of energy makes it vulnerable to the impacts of political events such as the Russian invasion of Ukraine and subsequent price shocks of energy. In the future, if Britain remains dependant on fossil fuels for most of its energy for heating and transport, the economy will continue to be exposed to these forces which reduce resilience

<sup>9</sup> [https://gemserv.com/wp-content/uploads/2021/06/Local-green-jobs-accelerating-a-sustainable-economic-recovery\\_final-1.pdf](https://gemserv.com/wp-content/uploads/2021/06/Local-green-jobs-accelerating-a-sustainable-economic-recovery_final-1.pdf)

<sup>10</sup> <https://www.local.gov.uk/about/news/cop26-green-economy-could-see-nearly-700000-green-jobs-created-2030>

<sup>11</sup> [UK business opportunities of moving to a low-carbon economy - Climate Change Committee \(theccc.org.uk\)](https://www.thccc.org.uk/uk-business-opportunities-of-moving-to-a-low-carbon-economy-climate-change-committee)

<sup>12</sup> <https://www.citb.co.uk/about-citb/news-events-and-blogs/net-zero-350-000-new-construction-roles-to-be-created-by-2028/>

<sup>13</sup> <https://www.theguardian.com/environment/2022/sep/20/energy-saving-measures-could-boost-uk-economy-by-7bn-a-year-study-says>

<sup>14</sup> <https://www.esgtoday.com/eu-proposes-rules-requiring-all-new-buildings-to-be-zero-emission-by-2030/>

to shocks and damage long term investor and business confidence and propensity to invest. Conversely if it pursues a net zero strategy, this will reduce dependency on fossil fuels, increase energy independency and reduce exposure to international market volatility. All of these create stable economic conditions for growth and enable the UK to capitalise on the other opportunities outlined here.

This offers many advantages, including **lower cost** for business and consumers which frees up capital and income to be spent on improving productivity and growth.

- Renewable sources of electricity are now cheaper than fossil fuels. In the long term the net zero transition presents an opportunity to transition the UK energy system to an energy source which is not scarce and therefore not subject to the same pricing market forces as fossil fuels.<sup>15</sup>
- A zero-carbon energy system would help manage energy costs for businesses and consumers in the long term. The effect of rising energy bills for businesses and householders has already been hugely damaging and threatens to continue for months or potentially years. More than half of small companies in Britain fear that rising energy costs coupled with crippling inflation will force them to close. The Federation of Small Businesses (FSB) reports that 53 percent of firms expect to collapse, shrink or, at best, stagnate over the next year.<sup>16</sup>
- The UK Government Building Energy Efficiency Survey has found that non-domestic buildings are using on average between 20-40% more energy than necessary, with much of the associated savings being possible with measures that have a simple payback of less than three years. The occupiers of these buildings are therefore incurring unnecessary costs.<sup>17</sup> The building energy efficiency survey found that implementing measures with a payback of three years or less would save businesses on average £1.3 billion per year.<sup>18</sup> These businesses typically occupy space provided by real estate investors and commercial property owners. Impacts on their costs also impact on real estate owners in terms of the security of revenue streams in terms of rental value and growth.
- On the consumer side, recent increases in energy costs for consumers have already been demonstrated to have an impact on consumer spending. The UK ONS reports that in 2020, the poorest 10 percent of households spent more than half of their average weekly expenditure (£298.90) on essentials such as housing (including electricity and gas), food and transport.<sup>19</sup> A reduction in energy costs will reduce fuel poverty and release more spending into the general economy, supporting economic growth. Figures from the UK Homes Future Fit Program estimate that the associated average energy bills savings for the average household would be £779, with average household disposable incomes 2% higher reducing household energy expenditure by £7.5 billion per year at 2020 prices. For Lower income households, average bills would be 30-37% lower, with average savings of £4,464 for upgrading homes at EPC F and G to C.<sup>21</sup>
- The International Energy Agency has, more generally, highlighted the key role that energy efficiency must play as an effective economic stimulus.<sup>22</sup> Large scale energy efficiency policies have typically been shown to

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<sup>15</sup> <https://www.theguardian.com/environment/2022/may/24/limits-on-renewables-will-keep-uk-energy-bills-higher-this-winter>

<sup>16</sup> <https://www.wsws.org/en/articles/2022/09/02/peej-s02.html>

<sup>17</sup> <https://www.gov.uk/government/publications/building-energy-efficiency-survey-bees>

<sup>18</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/565745/BEES\\_Executive\\_Summary\\_FINAL.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/565745/BEES_Executive_Summary_FINAL.pdf)

<sup>19</sup> <https://from.ncl.ac.uk/the-effects-of-high-energy-prices-on-uk-consumers>

<sup>20</sup> <https://www.ons.gov.uk/economy/inflationandpriceindices/articles/energypricesandtheireffectonhouseholds/2022-02-01>

<sup>21</sup> [https://static1.squarespace.com/static/6322eb1857fe565e0c779721/t/6346bdd8667fe1589ecf53b3/1665580514037/CHEAPE\\_R\\_BILLS\\_WARMER\\_HOMES.2022.pdf](https://static1.squarespace.com/static/6322eb1857fe565e0c779721/t/6346bdd8667fe1589ecf53b3/1665580514037/CHEAPE_R_BILLS_WARMER_HOMES.2022.pdf)

<sup>22</sup> <https://www.iea.org/articles/energy-efficiency-and-economic-stimulus>



have positive GDP effects of between 0.25% to 1.1% per year, with job creation ranging from 8 to 27 job years per million euros invested.<sup>23</sup>

Some examples from our members concerning the savings they have made from energy efficiency projects include:

- At Hammersmith Grove, an office development, Federated Hermes was able to achieve £227,000 of verified energy savings (£152,000 net) and reduce energy consumption by 1.5 million kWh. At Centre Milton Keynes, this contributed to achieving 15% lower landlord-controlled emissions in 2019.<sup>24</sup>
- abrdn has partnered with KJ Tait Engineers to trial Ecopilot at One Trinity Gardens in Newcastle in 2019. Performance in the first 12 months show a 29% reduction in gas use and 15% reduction in electricity use versus the baseline year. With additional improvements in the pipeline, the ongoing savings are now on track to exceed expectations and achieve the UKGBC 2025 Net Zero Carbon benchmark. This performance supports the low carbon goals of Aberdeen Standard Investments, occupiers, and the wider society.<sup>25</sup>
- In 2018 Schroder Real Estate Investment Management (SREIM) has exceeded its 6% energy reduction target, delivering an 8.1% reduction in two years. This has been achieved by working collaboratively with property teams across its UK portfolio, supported by sustainability consultants EVORA. This translated to £330,000 savings on energy costs in 2018, against 2016 baseline.<sup>26</sup>
- In 2019 Transport for London (TfL) has completed a major RE: FIT project with E.ON and specialist partners to improve energy efficiency at its Palestra hub. Cost savings and CO2 reductions in the first year significantly exceeded E.ON's performance guarantees and improvements have also helped improve occupant satisfaction. This included £445,000 in annual energy cost savings and a 17% reduction in Co2 emissions vs the baseline.<sup>27</sup>

In its response to the UK Government's Energy Security Strategy in April 2022, investor Schroders highlighted the critical role of energy efficiency on renewable energy generation in transitioning to a more stable, domestically sourced energy system with greater security.<sup>28</sup> Tamara Sandoul, Policy, and Campaigns Manager for CIEH, reflected that “energy security that is based on fossil fuels can only be short term if the government heeds the warnings in the latest IPCC (Intergovernmental Panel on Climate Change) report”.<sup>29</sup>

The majority of BBP members have already begun orienting their businesses to net zero, and this is leading to significant changes in the way that they develop their investment and management strategies, assess new acquisitions, deals and developments. This is, in part, being driven by a significant increase in investors orienting their strategies towards ESG (Environmental, Social and Governance) and sustainable investment. Our members consider that pursuing Net Zero strategies is therefore seen as a critical factor in **attracting and retaining investment** and is creating new growth opportunities for them.

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<sup>23</sup> [https://iea.blob.core.windows.net/assets/28f84ed8-4101-4e95-ae51-9536b6436f14/Multiple\\_Benefits\\_of\\_Energy\\_Efficiency-148x199.pdf](https://iea.blob.core.windows.net/assets/28f84ed8-4101-4e95-ae51-9536b6436f14/Multiple_Benefits_of_Energy_Efficiency-148x199.pdf)

<sup>24</sup> <https://www.betterbuildingspartnership.co.uk/international-business-federated-hermes-successfully-decouples-carbon-emissions-and-portfolio-growth>

<sup>25</sup> <https://www.betterbuildingspartnership.co.uk/aberdeen-standard-investments-partners-energy-efficiency-and-wellbeing-pilot>

<sup>26</sup> <https://www.betterbuildingspartnership.co.uk/schroder-real-estate-collaborates-exceed-energy-reduction-target>

<sup>27</sup> <https://www.betterbuildingspartnership.co.uk/tfl-partnership-eon-transforms-performance-palestra>

<sup>28</sup> <https://www.schroders.com/en/au/advisers/insights/investment-insights/what-the-uks-energy-security-strategy-got-right--and-where-politics-hampered-policy/>

<sup>29</sup> <https://propertyindustryeye.com/governments-new-energy-strategy-comes-in-for-criticism/>



- There has been a notable increase in reporting requirements and expectations around carbon from investors, with rising investor requirements around net zero / ESG. Investors increasingly need climate risks to be managed through the transition to net zero carbon.
- The UN-convened Net Zero Asset Owner Alliance (NZAOA) is a member-led initiative of institutional investors committed to transitioning their investment portfolios to net-zero GHG (greenhouse gas) emissions by 2050 – consistent with a maximum temperature rise of 1.5°C. The NZAOA now has 78 members managing more than \$10.8Tr in Assets Under Management.<sup>30</sup>
- Evora produce an annual investor survey.<sup>31</sup> In 2022 this found that 92% of respondents considered ESG issues to be materially important to the real asset investment lifecycle, and 75% of respondents said they always utilise ESG data for investment decision-making.
- According to a recent JLL survey of investors, sustainability and climate change are deemed to have the greatest impact on real estate performance, with two thirds stating that they would be increasing their allocations to more sustainable properties.<sup>32</sup>

Central to this is a growing body of evidence establishing a link between sustainable buildings and investment performance, including that undertaken by JLL and CBRE.<sup>33 34</sup>

<sup>35</sup><https://realassetinsight.com/2021/11/23/rent-premium-for-sustainable-buildings-as-high-as-29-cbre/>

Please also refer to answers to Questions 8 and 12.

The policy of net zero at a national level provides investor confidence and a clear economic strategy across sectors which can **stimulate innovation and collaboration providing export opportunities**. If the UK can develop new technological solutions and the associated skills to decarbonise our own economy, we will be well-placed to export those solutions to other countries that have been less focused on the decarbonisation opportunity. If, conversely, we fail to do so, we will risk finding ourselves playing catch-up and needing to import the solutions developed elsewhere. Maintaining and strengthening the UK's focus on net zero in line with existing commitments and business commitments already made are the recipe for seizing a share of the green investment revolution that the world will continue to see over the coming decades. Responses to other questions highlight the specific technologies and solutions that can be scaled up with greater investor confidence.

Some examples from our members concerning their investment in new technologies include:

- The JJ Mack Building in London is Helical's smartest and most sustainable development to date. It is not only climate resilient – designed for carbon efficiency and adaptable to changing environmental conditions – but also at the forefront of what is possible in terms of occupier experience and wellness. It sets a new benchmark by which Helical will measure all future buildings.<sup>36</sup>
- At The Bower in Old Street, London, the owner Helical PLC and managing agent Ashdown Phillips ran an innovative tender process that led to the introduction of bio-enzyme cleaning. All products are now distilled on-site, avoiding single-use plastics, cutting carbon emissions, and delivering healthier cleaning performance with less use of hazardous chemicals. Following the success of this pilot, the team is now exploring opportunities to rollout bio-enzyme cleaning at additional sites.<sup>37</sup>

<sup>30</sup> <https://www.unepfi.org/net-zero-alliance/alliance-members/>

<sup>31</sup> <https://evoraglobal.com/wp-content/uploads/2022/01/FC780-EVORA-Investor-Survey-2021-Combined-20220118-v3.pdf>

<sup>32</sup> <https://www.us.jll.com/en/trends-and-insights/research/decarbonizing-the-built-environment>

<sup>33</sup> <https://www.jll.co.uk/en/trends-and-insights/investor/four-ways-green-thinking-can-add-value-for-investors>

<sup>34</sup> <https://www.jll.co.uk/en/trends-and-insights/research/return-on-sustainability>

<sup>35</sup> <https://realassetinsight.com/2021/11/23/rent-premium-for-sustainable-buildings-as-high-as-29-cbre/>

<sup>36</sup> <https://www.betterbuildingspartnership.co.uk/smart-enabled-truly-sustainable-future-%E2%80%93-jj-mack-building>

<sup>37</sup> <https://www.betterbuildingspartnership.co.uk/case-studies?topic=All&page=1>

- Schroder Real Estate and Knight Frank have used voltage power optimisation to reduce energy consumption of all electrical equipment and appliances in three multi-let office buildings reducing CO2 emission and improving power quality for occupiers.<sup>38</sup>

Finally, it is important to note that the UK's contribution to delivering net zero by mitigating our national carbon emissions will help to avert the worst impacts of climate change. Extreme climate weather events are expected to significantly impact on financial markets and physical infrastructure. The Valuation Report for the CCRA3 estimates that, for eight of the risks identified by the Committee on Climate Change, economic damages by 2050 under 2°C could exceed £1 billion p.a. For thirty-six of the risks, damages could be at least £10 million p.a..<sup>39</sup> These costs pose a huge risk to economic value and growth – it much harder for businesses to invest and forecast if the physical weather conditions in the UK become more unpredictable, or if assets such as those in flood-risk areas or exposed to higher levels of risk. Further discussion is available in the [BBP's Climate Resilience guide](#).

## 2. What challenges and obstacles have you identified to decarbonisation?

There are a range of challenges property organisations face when working to decarbonise their portfolios; these range from a skills shortage in ESG and the cost of low-carbon retrofits to buildings, to a lack of clarity in regulation and planning and the challenge of accessing good data to make a building more sustainable.

- BBP member organisations found several challenges around the current regulatory landscape. There is a **lack of harmonised regulation** in the built environment sector on net zero carbon and what 'good' looks like.
- This is further complicated by a **lack of regulatory drivers** to incentivise upgrading and retrofitting buildings at scale, in driving the replacement of gas boilers with heat pumps at scale, regulating embodied carbon, and setting minimum energy performance requirements based on operational performance data.
- Additionally, existing **regulatory constraints** can limit the use of lower-carbon materials such as timber and can prohibit the implementation of energy efficiency and renewable energy generation measures for heritage buildings, making it difficult to decarbonise these buildings.
- The **capital expenditure** needed to make buildings low carbon can sometimes be prohibitive, particularly for real estate investments which have short hold periods. Members also frequently raise the challenge of 'split incentives,' in which the costs of implementing energy efficiency measures fall on the property owner, while the benefits accrue to the tenant of a building. Additionally, there are challenges around the technological maturity of some of the low-carbon technologies which will be installed in buildings, and ensuring these markets are ready to supply the demand.
- The **lack of good quality and standardised performance data** across sectors, such as data on energy performance, GHG emissions and climate risk remains a key challenge within the commercial real estate sector, most especially in relation to Scope 3 emissions where gathering data from supply chains and occupiers encounters multiple challenges of a technical, legal and skills nature. Data on actual energy use data is not routinely available and shared by occupiers with property owners and then with property owners' lenders.
- There is a well-documented **skills gap** in ESG, both in the technical skills which will be required to retrofit buildings sustainably (such as switching out gas boilers), and a more general lack of understanding across organisations of how ESG can be integrated into roles. Research by real assets sustainability consultancy EVORA found that over half of investors do not have enough ESG knowledge to execute ESG objectives linked to their job, while another recent report found that 77% of financial professionals reported a

<sup>38</sup> <https://www.betterbuildingspartnership.co.uk/case-studies?topic=All&page=40>

<sup>39</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1047003/climate-change-risk-assessment-2022.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1047003/climate-change-risk-assessment-2022.pdf)

sustainability skills shortage at their organisation.<sup>40 41</sup> BBP members have found a lack of skilled practitioners, a skills shortage in technical roles, and a general lack of understanding of opportunities for embedding ESG principles in everyday roles.

- Current valuation knowledge and processes are such that the **financial value of net zero buildings is not accurately captured** within mainstream valuation processes, meaning that owners are not able to capitalise on investments that they make to improve the performance of buildings when valuing and transacting commercial buildings. The CFP Green Buildings tool, championed by ING in the Netherlands and now other countries in Europe, has shown that retrofit interventions costing on average 3-7% of an asset's cost, if fully debt financed by the bank, end up reducing the LTV because the increase in value that results from the retrofit investment more than outweighs the extra debt.<sup>42</sup>

### 3. What opportunities are there for new/amended measures to stimulate or facilitate the transition to net zero in a way that is pro-growth and/or pro-business?

As noted above, the willingness of investors, commercial property owners and occupiers to make the changes necessary to deliver net zero is growing rapidly. Many of the measures that would stimulate the transition to net zero would serve to overcome market failures and provide investor confidence, unlocking investment in the technologies, solutions and skill development that are needed.

BBP members have highlighted the following measures related to existing policy and regulation as key to driving the transition to net zero, each of which can support economic growth:

- Clarify how the Minimum Energy Efficiency Standards (MEES) will be implemented
- Make building energy performance more transparent
- Provide a clear timeline for phasing out gas in non-domestic buildings
- Strengthen Standards to drive adoption of low carbon alternatives

These are explored in more detail below:

#### EPCs (Energy Performance Certificates) and MEES

- EPCs and the associated MEES regulations have resulted in important drivers for property owners to improve building fabric, resulting in an improved potential for the building to deliver better energy performance. This has driven many investors to upgrade their assets in line with the MEES requirements, resulting in many buildings having the potential to deliver better performance. The consultation on the implementation of Minimum Energy Efficiency Standards remains outstanding. The BBP response to that consultation can be found [here](#).
- Phasing out the installation of fossil fuel heating systems in businesses and public buildings off the gas grid.<sup>43</sup>

**Transparency of building performance:** Making energy performance data for commercial buildings more easily available and increasing regulation around building performance will encourage supporting industries delivering goods and services to drive energy efficiency (including building fabric improvements, on-site renewable generation technologies and energy metering and tracking solutions).

The BBP supports the introduction of mandatory in-use performance ratings for commercial buildings in the UK. This is deemed by our members to be a vital instrument for improving transparency concerning

<sup>40</sup> <https://evoraglobal.com/wp-content/uploads/2022/05/EVORA-Training-survey-top-highlights.pdf>

<sup>41</sup> <https://www2.deloitte.com/content/dam/Deloitte/ca/Documents/industries/ca-industries-financialservices-taking-the-lead-in-sustainable-finance-EN-AODA.pdf>

<sup>42</sup> <https://cfp.nl/en/news-and-cases/introducing-the-green-buildings-tool/>

<sup>43</sup> <https://www.gov.uk/government/consultations/phasing-out-fossil-fuel-heating-systems-in-businesses-and-public-buildings-off-the-gas-grid>

the energy performance of commercial buildings and as an enabling mechanism for improving that performance. The Government's consultation on proposals to introduce a national performance-based policy framework for rating the energy and carbon performance of large commercial and industrial buildings concluded in June 2021 and there has been no significant update from BEIS since.<sup>44</sup>

Expediting this would be critical to progress – our members are keen to see this regulation progressed and see it as an enabler of progress. The BBP response to this consultation, together with specific recommendations concerning the implementation of the policy can be found [here](#).

In-use operational performance data serves as a benchmarking tool, providing a powerful market tool and promoting healthy competition for performance. Improving building energy efficiency will enable more money to flow into other areas of the economy. The BBP has been involved in two relevant initiatives, both of which provided a sound evidence basis, voluntary (private) disclosure of building energy performance and were referenced in the BEIS consultation highlighted above:

- The BBP has supported the development of NABERS UK, which was launched in 2019, is industry backed and supported and has already started transforming the commercial property market. NABERS Energy ratings measure and verify the actual energy use of existing offices, providing a rating from 1-6 stars, and helping building owners to accurately target, measure and communicate the energy performance of their buildings. This investment grade rating can be used to demonstrate whether offices are on a net zero carbon trajectory and provide investors and occupiers with the confidence that the buildings they own and occupy are aligned with their climate change ambitions.<sup>45</sup>
- The BBP also runs the [Real Estate Environmental Benchmarking project](#), a publicly available operational benchmark of environmental performance for commercial property in the UK with data from more than 1,100 commercial properties and enabling our members to track the progress of their portfolios towards net zero.

Mandatory and voluntary energy performance disclosure schemes are already in place across a wide range of other geographies, demonstrating the importance of commercial building disclosure in driving market transformation. Introducing such a scheme in the UK would therefore be building upon international best practice, and provide an effective tool to demonstrate competitiveness in an international market.

- Australia
  - a. National Construction Code for new buildings, where NABERS ratings are now incorporated into the Code. The National Construction Code's Energy Efficiency section allows offices with 5.5 stars or higher NABERS Energy Commitment Agreements to use the NABERS pathway to meet efficiency requirements for building certification. Some Councils require Commitment Agreements for new buildings in their Development Control Plans (DCPs). Certain trusts allow tax incentives for trusts holding buildings with NABERS ratings of 5.5 stars and above.<sup>46 47</sup>
  - b. The Commercial Building Disclosure (CBD) Program requires energy efficiency information to be provided in most cases when commercial office space of 1000 square metres or more is offered for sale or lease. The aim is to improve the energy efficiency of Australia's large office buildings and to ensure prospective buyers and tenants are informed. It was established by the *Building Energy*

<sup>44</sup> <https://www.gov.uk/government/consultations/introducing-a-performance-based-policy-framework-in-large-commercial-and-industrial-buildings>

<sup>45</sup> <https://www.nabers.gov.au/about/news/nabers-launches-uk>

<sup>46</sup> <https://www.nabers.gov.au/ratings/commitment-agreements>

<sup>47</sup> <https://ncc.abcb.gov.au/>



*Efficiency Disclosure Act 2010* and is managed by the Australian Government Department of Climate Change, Energy, the Environment and Water. The CBD utilises the NABERS rating scheme for owners to demonstrate compliance, further embedding the scheme across the commercial property sector.<sup>48</sup>

- i. 75% of commercial office space in Australia is rated using NABERS
- ii. Since the scheme began, buildings rated by the scheme have made savings of AUS\$1bn on their energy bills.

Once a commercial building disclosure scheme is in place, it can be used to link to other mechanisms that help drive the transformation required to deliver on net zero. For example, the NABERS scheme in Australia:

- iii. Is linked to Environmental Upgrade Agreements available through the National Australia Bank which link finance for energy efficiency upgrades to energy savings.<sup>49</sup>
  - iv. Provides links to financial incentives to help reduce energy use via the SW Energy Savings Scheme.<sup>50</sup>
  - v. Provides the primary scheme that facilitates the provision of sustainable finance for existing commercial buildings in Australia. In June 2022, NABERS published its ‘Sustainable Finance Criteria’ to help facilitate the uptake of green finance.<sup>51</sup>
  - vi. Enables the Government to target hard to reach buildings and owners by incentivising owners to undertake ratings.<sup>52</sup>
- New York City has three laws addressing access to building energy performance data:
    - a. Local Law 84 requires buildings to submit energy and water consumption benchmarking data.
    - b. Local Law 87 requires periodic energy audits and retro-commissioning measures (for more information about retro-commissioning, read [How to set energy efficiency standards for existing buildings](#)).
    - c. Local Law 88 requires buildings to install electrical sub-meters for large non-residential tenant spaces and to provide monthly energy statements.
  - In the US, the Energy Star programme provides the basis for several city-specific energy performance disclosure requirements:
    - a. In 2019, Chicago is introducing an energy performance certificate scheme called the Chicago Energy Rating System – building on the success of its Energy Benchmarking and Transparency Ordinance . All properties over 50,000 square feet are required to complete energy benchmarking and report results to the city annually.<sup>53</sup>
    - b. Minneapolis requires benchmarking of large public and commercial buildings, under an ordinance adopted in February 2013. Large commercial buildings make up almost 50% of the city’s energy use. Affected buildings are defined as those over 25,000 and 50,000 square feet for commercial and city-owned buildings respectively. In February 2019, the ordinance was expanded to include residential buildings of 100,000 square feet or more. The results are published annually on the city government’s website.
    - c. Houston requires annual benchmarking for municipal buildings over 25,000 square feet. Buildings consume 40% of the city administration’s total energy use, and Houston’s goal is to achieve 20% energy savings in municipal buildings by 2020, relative to the 2008 baseline. By March 2019, a 19% reduction had been achieved. In 2010, Houston also launched a voluntary commercial

<sup>48</sup> <https://www.cbd.gov.au/program/overview/overview>

<sup>49</sup> [Environmental Upgrade Funding - NAB](#)

<sup>50</sup> <https://www.energy.nsw.gov.au/energy-saving-scheme/get-funding-business-equipment-upgrades/NABERS>

<sup>51</sup> <https://www.nabers.gov.au/about/news/launched-nabers-sustainable-finance-criteria>

<sup>52</sup> <https://www.nabers.gov.au/publications/nsw-government-offer-energy-water-starters-and-new-buildings>

<sup>53</sup> <https://publications.wri.org/buildingefficiency/>

benchmarking programme, the Green Office Challenge, to encourage commercial buildings to benchmark and share their energy usage data.

- Austin in the United States requires energy audits and disclosure for residential and multifamily units older than 10 years, alongside annual reporting of an energy rating for commercial buildings over 10,000 square feet.<sup>54</sup>
- Singapore mandates energy audits specifically for building cooling systems.<sup>55</sup>
- Vancouver, Canada mandates energy audits for single and two-family homes when owners apply for a building permit for home refurbishments.<sup>56</sup>

**A clear timeline on the end of gas for non-domestic buildings:** This will give investors, asset owners and managers the confidence to invest in heat pumps and other low carbon heating technologies. It will also provide the supply side of the market with confidence that investments in recruitment, training and building delivery capacity will be met with a strong pipeline of demand. Analysis by Cambridge Econometrics has found that insulating homes in Britain and installing heat pumps could benefit the economy by £7bn a year and create 140,000 new jobs by 2030, research has found.<sup>57</sup> UK heat pump manufacturing could produce £5.5bn of product value and create thousands of low-carbon jobs, according to a BEIS study.<sup>58</sup> The Government's consultation on proposals to phase out fossil fuel heating system installations in businesses and public buildings off the gas grid closed in January 2022 with no response since.<sup>59</sup> Our members would like to see a response to this consultation.

**Align regulation and best practice** so there is no split between regulatory drivers and best practice. For example:

- Resolve the potential conflict between Part L regulations and EPC regulations which creates uncertainty that does not assist investment.
- Focus building regulations (Part L) on outcomes in terms of energy use intensity enabling the property developers to decipher the most appropriate mechanisms for delivering this outcome. There are various EUI (Energy Use Intensity) targets that have been developed by the industry for specific commercial property types, these need to be expanded to other sectors and empirical evidence should be prioritised over theoretical modelling.
- Consider the approach to upfront embodied carbon in building regulations.
- Consider the approach to Whole Life Carbon as part of building regulations - Part Z on whole life carbon provides a proposed amendment to the Building Regulations, mandating the assessment of whole life carbon, and setting limits on embodied carbon.<sup>60</sup> With this in place, minimum standards could then be developed in relation to specific asset types.

**Strengthen Standards to drive adoption of lower-carbon alternatives:**

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<sup>54</sup> [https://www.c40knowledgehub.org/s/article/How-to-use-reporting-and-disclosure-to-drive-building-energy-efficiency?language=en\\_US](https://www.c40knowledgehub.org/s/article/How-to-use-reporting-and-disclosure-to-drive-building-energy-efficiency?language=en_US)

<sup>55</sup> [https://www.c40knowledgehub.org/s/article/How-to-use-reporting-and-disclosure-to-drive-building-energy-efficiency?language=en\\_US](https://www.c40knowledgehub.org/s/article/How-to-use-reporting-and-disclosure-to-drive-building-energy-efficiency?language=en_US)

<sup>56</sup> [https://www.c40knowledgehub.org/s/article/How-to-use-reporting-and-disclosure-to-drive-building-energy-efficiency?language=en\\_US](https://www.c40knowledgehub.org/s/article/How-to-use-reporting-and-disclosure-to-drive-building-energy-efficiency?language=en_US)

<sup>57</sup> <https://www.theguardian.com/environment/2022/sep/20/energy-saving-measures-could-boost-uk-economy-by-7bn-a-year-study-says#:~:text=Insulating%20homes%20in%20Britain%20and,Cambridge%20Econometrics%2C%20commissioned%20by%20Greenpeace>

<sup>58</sup> [UK Heat Pump Manufacturing Holds Potential For Economy and Jobs - Eunomia](https://www.gov.uk/government/consultations/phasing-out-fossil-fuel-heating-systems-in-businesses-and-public-buildings-off-the-gas-grid)

<sup>59</sup> <https://www.gov.uk/government/consultations/phasing-out-fossil-fuel-heating-systems-in-businesses-and-public-buildings-off-the-gas-grid>

<sup>60</sup> <https://part-z.uk/>

Utilise the planning system and building regulations to:

- Discourage the use of highly energy intensive materials e.g., steel, cement etc in buildings and infrastructure
- Encourage the use of recycled materials, materials with low embodied energy and that have the potential to sequester carbon in use e.g., timber.

#### 4. What more could government do to support businesses, consumers, and other actors to decarbonise?

There are numerous ways in which Government can support businesses, consumers, and other actors to decarbonise. In addition to providing clarity in relation to the policy instruments highlighted above, the BBP and its members are looking for Government to:

- Provide stable economic conditions within which policies on net zero can contribute to economic growth.
- Show leadership in its own procurement, development, management, and occupation of the Government estate.
- Introduce incentives to support and encourage market leaders in their decarbonisation efforts.
- Develop a clear national retrofit strategy for existing buildings
- Support the domestic manufacturing industries for low carbon technologies.
- Invest in training and skills for the technical and professional skills.
- Expand Research & Development

These are explored in more detail below:

##### **A clear, consistent, and stable policy making environment.**

The UK has a net zero target which is enshrined in UK law. This net zero target has provided much needed long-term policy certainty, enabling our members to position their businesses to deliver on this, by integrating this target into their decision-making processes with the aim of decarbonising their commercial real estate investment portfolios. This context has enabled our members (and other owners) to have the confidence in setting their own net zero targets as illustrated by the 35 signatories to the BBP Climate Commitment covering over £400bn AUM.

The rationale for the target was based on the overwhelming scientific evidence that demonstrates the need to achieve substantial emissions reductions across the economy to avoid and manage the consequences of climate change, and the economic opportunity that aiming for net zero creates for the UK economy. **Our members consider that this remains a sound rationale and that addressing climate change is critical to the growth and prosperity of the commercial real estate sector. It is therefore vital to retain this target to continue to provide much needed certainty that the market can then plan, prepare, and deliver against.**

The very nature of buildings as a 'fixed' asset, means that any decisions that impact on how they are delivered needs to be undertaken with a long-term view as the planning, development and delivery of buildings can sometimes extend over decades and significantly beyond the short-term cycles of political and financial decision-making processes. A clear, consistent, and stable policy environment, with targets enshrined in law enables property owners to make long-term investments that will benefit the economy for many years to come.

In this regard, the BBP would highlight several specific consultations that remain outstanding and therefore where there is currently a lack of clarity. As noted in Q3 above

- The consultation on the implementation of Minimum Energy Efficiency Standards remains outstanding.<sup>61</sup>

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<sup>61</sup> <https://www.betterbuildingspartnership.co.uk/mees-consultation-response-january-2020#:~:text=The%20Better%20Buildings%20Partnership%20has,C%20or%20above%20by%202030>

- The consultation on the introduction of mandatory disclosure of energy performance for commercial buildings remains outstanding.<sup>62</sup>
- Phasing out the installation of fossil fuel heating systems in businesses and public buildings off the gas grid.<sup>63</sup>
- A clear timeline on the end of gas for non-domestic buildings.

### **Leadership in the Government’s own procurement, development, and occupation of buildings.**

The UK public sector manages more than 300,000 individual properties, at a combined value of £515bn, which makes it the largest property portfolio in the country, and up to £31 billion of public sector construction contracts across economic and social infrastructure will be brought to market over the next year.<sup>64</sup>

As a major owner, developer, and occupier of buildings the Government must demonstrate that it is seeking to decarbonise its own portfolio. In this way it can develop an understanding of the business transformation required and provide vital evidence and data to support the development of policy in this area. All of this ‘supports’ commercial property owners by setting an example with its own actions and committing to long-term programmes of work that are consistent with the net zero target. The Government should seek to lead, not lag the commercial property sector and the various programmes of work under the Office for Government Property (OGP) and the Government Property Agency (GPA) should have net zero as a key strategic target for the Government Estate (in common with many other commercial property owners) and delivery plans to outline how this will be implemented.

Specific actions the Government could take include:

- Commit the Government Estate to the delivery of net zero buildings in common with other commercial property owners utilising a credible net zero commitment such as the BBP Climate Commitment (or others such as the World GBC Net Zero Carbon Buildings Commitment).
- Utilise NABERS UK (pending the outcome of the proposed performance-based framework for large commercial and industrial buildings) and commit to:
  - Develop new offices using the ‘NABERS UK Design for Performance’ approach and set a minimum standard for all new office buildings and major refurbishments.
  - Lease and occupy buildings that achieve a minimum NABERS UK rating. This approach has played a significant role in ensuring the success of the NABERS rating scheme in Australia.

The Australian Government recognises that as a large energy user, it needs to contribute towards national energy productivity and emissions targets through improvements to its operations.

The Energy Efficiency in Government Operations (EEGO) policy includes energy intensity targets and minimum energy performance standards. These ensure departments and agencies progressively improve their energy performance and consider energy use when purchasing or leasing buildings and appliances.

Government operations required to comply with EEGO policy are:

- all Commonwealth agencies covered by the Public Governance, Performance and Accountability (PGPA) Act 2013
- statutory bodies covered by the PGPA Act 2013 that derive more than 50% of their funding from the Commonwealth.

<sup>62</sup> <https://www.betterbuildingspartnership.co.uk/consultation-response-introducing-performance-based-policy-framework-large-commercial-and-industrial>

<sup>63</sup> <https://www.gov.uk/government/consultations/phasing-out-fossil-fuel-heating-systems-in-businesses-and-public-buildings-off-the-gas-grid>

<sup>64</sup> <https://questions-statements.parliament.uk/written-statements/detail/2021-11-23/HCWS412>



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The National Australian Built Environment Rating System (NABERS) is used to measure the ongoing level of energy efficiency of government office buildings. Alternative schemes for measuring energy efficiency can be used where it can be demonstrated that the alternative will achieve an equivalent outcome.

Minimum energy performance standards for Government offices are currently set at either equal to or greater than NABERS 4.5 Stars.

More information can be found [here](#).

### **Introduce incentives to support and encourage market leaders in their decarbonisation efforts.**

The BBP membership represents leading UK commercial property owners, many of whom are market leading in their approach to delivering net zero buildings. These commercial property owners have numerous examples of best practice on specific projects where stakeholder aspirations are aligned, but often face challenges in up-scaling solutions across large portfolios. A programme of incentives to encourage this scaling-up would facilitate market solutions. In developing these incentives, the BBP would favour:

- Incentives that linked to actual performance and outcomes in relation to net zero.
- Focus more incentives on demand side management and energy efficiency, reducing energy to reduce the pressure on the grid.
- Incentives that support commercial retrofit.
- Incentives with a clear and transparent timeline that enables scaling up to be achieved before removal.
- Support - advice guidance and funding for businesses to transition
- Provide method of cost parity for decarbonised heat vs. conventional
- Supporting the domestic manufacturing industries for low carbon technologies.

As noted in Q1, we would also support

- Expanding R&D incentives for technologies to enable net zero e.g., batteries, heat pumps, hydrogen etc.
- Tax/rate incentives for Capex investments in key technologies, which could unlock significant investment and job creation. For example, energy efficiency products such as insulation and heat generating technologies such as heat pumps.
- Scaling up Innovate UK funding.<sup>65</sup>

### **Develop a clear national retrofit strategy for existing buildings**

Existing buildings will be critical to the delivery of the UK's net zero strategy and a clear strategy for retrofitting commercial buildings is needed. The investment, ownership, refurbishment, maintenance, management, and occupation of commercial buildings involves a diverse set of stakeholders, and it is vital that the government provides a clear strategy around which these stakeholders can coalesce and develop partnership to deliver on net zero ambitions. In addition to the measures highlighted in other aspects of this call for evidence (most especially the introduction of a mandatory commercial building energy performance disclosure scheme), the Government should consider the ways in which fiscal incentives such as VAT can be utilised to encourage retrofit and align these with performance outcomes. The BBP would also advocate Government support for efforts to co-ordinate and develop partnerships across the commercial property sector.

**Supporting the domestic manufacturing industries for low carbon technologies:** Three-quarters of real estate developers, owners and asset managers around the world are planning to invest in climate tech over the next five years, according to the finding of a report by CRETech.<sup>66</sup> Its survey, which represents

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<sup>65</sup> <https://www.ukri.org/about-us/innovate-uk/our-plan-for-action/net-zero/>

<sup>66</sup> <https://www.egi.co.uk/news/real-estate-ready-to-ramp-up-climate-tech-spending/>

owners of 7.9bn sq. ft of commercial real estate and was compiled in partnership with Urban Land Institute and Fifth Wall, found that collectively, respondents had already invested \$172.5m (£122m) over the past year in climate technologies, with 75% expecting to increase that investment. To deliver this, the Government could consider measure such as:

1. Expanding R&D incentives for technologies to enable net zero e.g., batteries, heat pumps, hydrogen etc.
2. Tax/rate incentives for Capex investments in key technologies, which could unlock significant investment and job creation. For example, energy efficiency products such as insulation and heat generating technologies such as heat pumps. The British Property Federation authored a paper in 2009 outlining how the UK tax system does not address this.<sup>67</sup>
3. Scaling up Innovate UK funding.<sup>68</sup>

### **Align regulations across all sectors of the economy to ensure that they are mutually supportive:**

Key sectors that have a significant impact on commercial real estate:

- Finance - Ensure that any new disclosure regulations reflect how real estate investment functions to ensure the standards / guidelines are practical and metrics meaningful e.g., TCFD (Taskforce on Climate related Financial Disclosures), SDR (Sustainability Disclosure Requirements), FCA (Financial Conduct Authority)
- Infrastructure investment – ensure infrastructure development contributes to the achievement of net zero within the commercial real estate sector. The UK infrastructure Bank could be critical in unlocking investment in the infrastructure required to support the commercial buildings sector.
- Invest in long term resilient energy solutions and low and zero carbon supply side energy generation.
- Business & occupiers – legislation directed at businesses and occupiers also has an important interaction with commercial property owners, particularly in relation to the leasing of commercial buildings. The review of the Landlord & Tenant Act 1954 should therefore take into consideration measures that are supportive of the net zero target by, for example, considering how ‘green lease’ clauses can be introduced. The BBP developed a [Green Lease Tool kit](#), which is one of our most widely utilised tool kits and is currently being updated to reflect changes in legislation and best practice. Members of the BBP are also incorporating green leases within their own portfolios, for example, Grosvenor has added green lease clauses to its standard lease clauses since 2020.<sup>69</sup>

**Investment in training and skills** for the technical and professional skills: related to the point above, at present there are insufficient heat pump installers to service the prospective market if most buildings are to transition over the next 30 years. The HPA estimates that there will be a potential requirement for 69,500 heat pump installers by 2035 to meet net zero ambitions.<sup>70</sup> There is a vast disconnect between where the heat pump industry is today, compared to where it needs to be, to deliver the systems transition anticipated for reaching net zero.<sup>71</sup>

This is also true for those in the investment market. EVORA research, which surveyed 73 institutional investors, asset managers and ESG experts from 19 countries in 2022, found just over half of investors do not have enough ESG knowledge to execute ESG objectives linked to their job role. Meanwhile, less than half of respondents had an in-house ESG training programme for relevant staff, while 22% planned to

<sup>67</sup> [https://hubble-live-assets.s3.amazonaws.com/crefc/file\\_asset/file/597/BPF\\_FIG\\_paper\\_October\\_2009.pdf](https://hubble-live-assets.s3.amazonaws.com/crefc/file_asset/file/597/BPF_FIG_paper_October_2009.pdf)

<sup>68</sup> <https://www.ukri.org/about-us/innovate-uk/our-plan-for-action/net-zero/>

<sup>69</sup> <https://www.grosvenor.com/greenleases>

<sup>70</sup> HPA, 2020.

<sup>71</sup> [https://pureportal.strath.ac.uk/files/133553551/Branford\\_2022\\_Executive\\_summary\\_heat\\_pump\\_skills\\_gap\\_and\\_the\\_just\\_transition.pdf](https://pureportal.strath.ac.uk/files/133553551/Branford_2022_Executive_summary_heat_pump_skills_gap_and_the_just_transition.pdf)

develop one, and 24% planned to seek external help.<sup>72</sup> The demand for upskilling in the real estate investment market is extremely high – in 2021 the BBP launched a training course focussed on ESG issues for real estate owners and managers. The course has been oversubscribed in its first 18 months of operation, with more than 1,000 real estate practitioners taking part.<sup>73</sup> The CBI (Climate Bond Initiative) estimates that closing the future skills gap could provide a £150bn uplift to UK gross value added (GVA).<sup>74</sup>

### Expand Research & Development

Research & development is critical for the commercial property sector to ensure that new technologies and materials can be implemented effectively from a technical, legal, insurance and commercial perspective. Government can play a vital role in supporting and funding research and development. Particular areas that our members have identified are challenging and require further research and development are:

- Facilitating insurance for low and zero carbon materials and technologies, most especially timber.
- Embodied carbon during building maintenance, management, operation, and end of life.
- Circular economy
- Construction methods

## 5. Where and in what areas of policy focus could net zero be achieved in a more economically efficient manner?

It is essential that policy is directed and implemented in the right way to ensure that taxpayer's money is utilised appropriately. However, policy interventions should not be restricted to what is economically efficient in the short term as many of the important benefits only materialise over the longer term. Some specific aspects of policy focus could include:

### Firstly, shift to outcome-oriented policies

In the built environment sector, one of the largest challenges is the performance gap – buildings do not perform as intended. Most of the regulation pertaining to buildings focuses on 'inputs' rather than outputs and the UK has a 'Design for Compliance' culture, which is embedded in the policy making process and translates through to existing buildings which are also 'Managed for Compliance.' Moving towards outcome-oriented policies (e.g., EUIs (Energy Use Intensity) and mandatory performance disclosure) would enable the Government to ensure that commercial buildings were delivering on their energy efficiency promises.<sup>75</sup>

**Secondly, provide supportive policy for market leaders:** Where the market is responding positively to the challenge of net zero, provide supportive policy interventions as well as minimum standards that seek to reward those commercial property owners that are taking early action. This might include taxation measures, incentivise efficiency measures through removal of VAT or tax breaks e.g., capital allowances for energy efficient, or low or zero-carbon technologies.

**Thirdly, direct 'enabling' legislation** to crack specific issues. For example, the availability of accurate and robust energy performance data is a challenge for property owners for whom this is essential to understand and manage energy consumption in commercial buildings which have a variety of different

<sup>72</sup> <https://evoraglobal.com/wp-content/uploads/2022/05/EVORA-Training-survey-top-highlights.pdf>

<sup>73</sup> <https://www.betterbuildingspartnership.co.uk/bbp-expands-esg-training-course-real-estate-advisors>

<sup>74</sup> <https://www.businessgreen.com/news/4031720/seize-moment-cbi-unveils-net-zero-driven-uk-economic-strategy>

<sup>75</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/970519/performance-based-policy-framework-ci-buildings--strategy-paper.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/970519/performance-based-policy-framework-ci-buildings--strategy-paper.pdf)

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leasing models from singly let FRI (fully repairing and insuring leases) to multi-let fully flexible leases. Introducing enabling legislation directed at utilities whereby they are required to disclose data related to the buildings they own or occupy, would be a more effective intervention than owners and occupier voluntarily agreeing to share data which requires additional costs, time, and resources. This might enable better energy use data access/pooling.

**Fourth, incentivize action:** The increasing demand for reporting and disclosure has led to a proliferation of different reporting standards that impact on the commercial property sector. These range from reporting requirements aimed at the finance sector, to regulation at listed entities to specific reporting mechanisms at an asset level. This increase in transparency is welcome, but transparency alone does not drive actions and outcomes. With this much needed transparency comes the opportunity to utilise data to drive action, targeting specific market participants, asset types and interventions.

**Fifth, recognise the critical enabling role that real estate lenders play in the market.** There are more property owners in the market than there are lenders, so regulation and encouragement from Government that promotes measure by lenders to catalyse the decarbonisation of buildings will allow them to influence the “long, brown tail” of property owners who do not understand climate change and sustainability. The main requirements of lenders in this regard are

- (1) access to data that can let them easily understand the performance (and changes in the performance) of buildings from a carbon perspective
- (2) regulatory capital and regulatory disclosure frameworks that positively encourage (and certainly do not discourage) brown-to-green lending strategies; and
- (3) a sufficiently stable and supportive regulatory environment that they can justify investing in the development of commoditised, packaged advice & finance services to their clients for retrofit.

## **6. How should we balance our priorities to maintaining energy security with our commitments to delivering net zero by 2050?**

BBP members believe that these two goals are not in conflict but are in fact mutually supportive. Investing in renewable energy and a cleaner built environment will help us address any future risk of energy security. The question suggests a balance needs to be struck, but one might argue the two are inextricably linked - commitment to net zero means reducing energy demand, improving energy efficiency, creating more local (and renewable) energy production, all of which are consistent with energy security.

As a critical aspect of improving energy security and delivering net zero, energy efficiency should be afforded much greater emphasis in Government policy making and market interventions. Energy efficiency can be an effective delivery tool – the less energy we use, the less we are exposed to supply and security issues by maximising the utilisation of domestic energy sources. The UK Government’s Building Energy Efficiency Survey identified cost effective energy efficiency opportunities of the order of 20-40% of non-domestic energy use by sector.<sup>76</sup>

Investment in onshore and offshore renewable energy technologies such as wind and solar power delivers on both goals – reducing the UK’s exposure to global energy markets and associated shocks and supply challenges, while also allowing us to deliver zero-carbon and renewable sources. When this is

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<sup>76</sup> <https://www.gov.uk/government/publications/building-energy-efficiency-survey-bees>



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combined with storage, demand reduction, the challenges around variability of renewables can be managed. The built environment has the capacity to assist with the solutions – such as through roof or car park mounted solar panels, siting battery storage technologies in large industrial parks and sites, heating systems that make use of renewable power (heat pumps and solar thermal heating).

While balance is an important aspiration, BBP members believe that given the time constraints we are working under, we should not let the perfect be the enemy of the good. There are several no-regrets steps we can take now and at scale to reduce carbon emissions. Technologies will improve over time, but we should not wait for ‘silver bullets’ to net zero - we need to act now.

## **7. What export opportunities does the transition to net zero present for the UK economy or UK businesses?**

The net zero transition presents a range of opportunities for the UK businesses, both within the UK and in terms of export opportunities. The government’s Energy Innovation Needs Assessment research found that the transition to the green economy could support £53 billion of gross value added (GVA), reflecting both domestic demand for goods and services, and opportunities from export markets.<sup>77</sup> The property sector will be a key area of transformation ‘building fabric’ and ‘heating and cooling’ both being among the key transition sectors identified by the research. BBP members identified building design and construction as key products and services which present export opportunities for their businesses. This includes the use of digital tools, industrialised construction, component manufacture, and the production and use of low-carbon construction materials.

The UK is a global leader in the sustainable finance sector and making London the ‘green capital’ of the world could present significant opportunities for the UK economy. London currently ranks #1 in the Global Green Finance Index (GGFI) and tops all areas of competitiveness and was the first Stock Exchange to launch a Voluntary Carbon Market Designation. Green finance is a rapidly growing sector. In 2021, the value of the UK’s responsible investment funds stood at £89bn, which is almost triple the level in 2020.<sup>78</sup> 120 UK financial institutions participating in the Glasgow Financial Alliance for Net Zero – the highest globally. The UK committed to spend £5.8 billion on climate finance over the previous five years and has now doubled that to spend £11.6 billion between April 2021 and March 2026, £3bn of which will contribute to protecting and restoring nature.

## **8. What growth benefits/opportunities have you had, or do you envisage having, from the net zero transition?**

There are significant growth opportunities being seen by our members across the property sector. This reflects wider research, such as the government’s Energy Innovation Needs Assessment (EINA) which found that 11 elements of the green economy could support £53 billion of gross value added (GVA) in the UK economy by 2050.<sup>79</sup>

In the process of decarbonising their assets, members are seeing the benefits of increased operational efficiency leading to savings releasing funds which can then be directed elsewhere in the business to support growth. They foresee better rental value and more growth and security in lease length and value through attracting high quality occupiers to their net zero spaces. There is a significant and growing body

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<sup>77</sup> [Energy Innovation Needs Assessments - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/research-data-and-analysis/energy-innovation-needs-assessment)

<sup>78</sup> <https://www.theglobalcity.uk/sustainable-finance>

<sup>79</sup> [Energy Innovation Needs Assessments - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/research-data-and-analysis/energy-innovation-needs-assessment)

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of evidence establishing a link between sustainable buildings and investment performance, including that undertaken by JLL and CBRE.<sup>80 81 82</sup>

The net zero transition is bringing property owners and tenants closer together. As an outcome of the BBP Climate Commitment and with the aim of specifically addressing Scope 3 emissions, The BBP has established an ‘Owner and Occupier’ Forum to better align owner and occupier interests around net zero. There are now c50 members of this Forum who are working together on specific projects to encourage greater collaboration, these include:

- A Thought Leadership paper to explore the systemic challenges in the relationship between owners and occupiers and make recommendations for closer alignment on net zero.
- A Data Sharing Pledge and Tool to facilitate greater consistency and transparency in terms of the exchange of energy performance data between owners and occupiers.

More information can be found [here](#).

Green leases are one specific instrument that can be used to support this. The BBP has a [Green Lease Tool Kit](#) to support members in developing green lease clauses.

BBP member Grosvenor began introducing green leases in 2020. These are designed to make it easier and more cost effective for occupiers to run their business sustainably and aid the business in achieving our zero carbon and zero waste goals.<sup>83</sup> Grosvenor’s clauses include commitments for them to collaborate to:

- Collect, analyse, and act on building energy and water consumption data
- Transition properties onto 100% renewable energy at highly competitive and less volatile prices
- Improve the environmental performance of buildings
- Expand waste and delivery consolidation locally to reduce traffic and pollution
- Share knowledge and insights on sustainability through a sustainability forum

Another relevant case study from our membership is Landsec’s net zero transition investment plan, which has seen the business work more collaboratively with their tenants. In 2021, Landsec launched a customer engagement programme to raise awareness, change behaviour and identify opportunities for collaborating on energy and cost savings. To date, Landsec have engaged with over 80 office customers on their sustainability plans and investigated opportunities for collaboration. Additionally, Landsec have conducted ‘energy deep dives’ with 15 occupiers to identify opportunities for energy reduction. Working with these customers and energy specialists they have identified annual carbon and costs savings of between 10 – 15% from actions that their customers can take to improve efficiency. Landsec are now working with these customers to support them to take these actions – many of these being ‘quick win’ actions such as changing behaviour, installing smart bars to automatically turn off small electrical equipment and reducing lighting sensor switch off times.

There is also the opportunity to provide integrated real asset and infrastructure services such as on-site renewables which will mitigate external risks to building occupiers. In 2015 Aberdeen completed the installation of a 250 kilowatts peak Solar PV array on another investment property within its UK portfolio.

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<sup>80</sup> <https://www.jll.co.uk/en/trends-and-insights/investor/four-ways-green-thinking-can-add-value-for-investors>

<sup>81</sup> <https://www.jll.co.uk/en/trends-and-insights/research/return-on-sustainability>

<sup>82</sup> <https://realassetinsight.com/2021/11/23/rent-premium-for-sustainable-buildings-as-high-as-29-cbre/>

<sup>83</sup> <https://uk.fashionnetwork.com/news/Global-landlord-grosvenor-introduces-green-leases,1243739.html>

The installation, comprising c.1,000 Solar Panels will provide c. 225,000 kilowatt hours (kWh) to Biffa Waste Services saving c.120 tonnes of carbon dioxide (CO<sub>2</sub>) annually.<sup>84</sup>

For members who offer property management services, there will be an increased demand for their consultancy services, such as energy or engineering advisory services.

There is increasing investor expectation around the decarbonisation of real estate portfolios. Therefore, through transitioning assets to being net zero, companies will benefit from meeting investor expectations, supporting clients in transitioning their investment portfolios, and taking advantage of the pricing of net zero assets to meet the performance requirements of both investors and disclosure regulations.

Real estate lenders are increasingly offering loans based on sustainability performance or improvement as demand grows for green-linked financing:<sup>85</sup>

- Aviva, the insurer, has committed to investing £6 billion in green assets by 2025, and Aviva Investors has already delivered £1 billion of loans focused on climate transition in the real estate sector.
- Dutch bank ING is offering new green building incentive loans to fund energy-efficient retrofits.<sup>86</sup>
- A group of banks recently lent around US\$635 million for a green mixed-use development in Singapore, while Allianz Real Estate provided a £140 million green loan to the Canary Wharf Group in London.<sup>87</sup>
- This is part of a global trend. Last year, over \$700 billion of sustainable and green debt was issued globally, up from \$250 million in 2018, according to Bloomberg, which estimates that investment products tailored for environmental, social and governance factors could grow to more than \$53 trillion of assets by 2025.<sup>88</sup>

In response, several BBP members are exploring and implementing sustainable lending vehicles including green credit revolving facilities, sustainability-linked loans. SEGRO, Brookfield, British Land, Aviva Investors and Derwent have all developed new green finance frameworks in the last 2 years. In recent months we have seen the following innovation in ESG-linked real estate debt offerings from BBP members and non-members.

- In October 2019, Derwent agreed a £450m revolving credit facility (RCF) of which £300m was designated as 'green' and will fund the construction of efficient buildings and improvements to its existing assets.
- In February 2020 GPE agreed an RCF which is not only linked to the proposed use of funds for environmental purposes, but also includes financial downside risk for GPE if outcomes are not delivered. Lenders include Santander, NatWest, Wells Fargo, Lloyds Bank & Bank of China.
- In March 2020, CBRE Global Investors agreed a £60m green RCF to fund specific energy improvements to an industrial asset.
- In November 2020, Tritax Big Box is first UK REIT to issue Sterling Green Bond. Unsecured and priced at 1.5%, Tritax's £250m bond was hugely over-subscribed – with investors offering over £2bn. Also, Aviva launches Sustainable Transition Loan Framework for Real Estate lending target of originating at least £1bn of Sustainable Transition Loans accredited to this Framework by 2025.
- In May 2021, Hammerson issued RE's first Sustainability-Linked Bond. €700m issuance, paying 1.75% over 6 years, covered 2x. Sustainable KPIs link to H's BBP Climate Commitment and NZ transition. Missed emissions targets will cause a higher coupon; premium on redemption; or payment to climate research

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<sup>84</sup> <https://www.betterbuildingspartnership.co.uk/aberdeen-asset-management-completes-large-solar-pv-installation-biffa-waste-services>

<sup>85</sup> <https://www.jll.co.uk/en/trends-and-insights/investor/how-real-estate-is-starting-to-embrace-green-finance>

<sup>86</sup> <https://www.esgtoday.com/ing-develops-innovative-green-loan-incentivizing-building-owners-to-improve-sustainability-of-properties/>

<sup>87</sup> <https://www.recapitalnews.com/allianzs-fuchs-esg-was-behind-decision-to-do-first-prs-loan/>

<sup>88</sup> <https://www.bloomberg.com/news/articles/2021-07-02/brexit-battered-london-spars-with-paris-for-green-finance-crown>

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However, the biggest role lenders can play is in relation to buildings owned by firms that are not members of the BBP. While we bring together sustainability leaders from across the real estate industry, the owners of most commercial buildings do not have sustainability teams, policies, or objectives. Yet those owners, and their buildings, will have to make the transition to a net zero economy too. As ING and other banks in the Netherlands have shown, a small number of lenders can reach many owners and buildings. If there are sustainability standards that lenders can use, and if the data required to allow them to assess performance and improvements in building sustainability, lenders are perfectly placed to deliver the advice and finance needed to decarbonise our built environment. As mentioned above, this will only work if banks' own regulatory incentives (in the form of capital requirements and disclosure and reporting frameworks) encourage such strategies – something that appears not currently to be the case.

## 9. What barriers do you face in decarbonising your business and its operations?

A 2021 report by the World Green Building Council found that cost was a primary area of concern around decarbonising and investing in sustainable buildings.<sup>89</sup> 53% of respondents identified high upfront costs – either real or perceived – as their primary barrier in decarbonising their assets. This is also a key barrier that our members have identified in decarbonising their business, with capital expenditure for retrofits not being seen as commercially viable in some assets and competing priorities for resources and investment making it difficult to fund these works. Some members have found that the decarbonisation benefits of certain retrofits are not reflected in the valuation of assets, and others have found a lack of clear vision or incentivisation from government for smaller businesses a barrier to decarbonising their portfolio.

The technical challenges associated with working in occupied buildings and collaborating with occupiers to improve the sustainability of existing buildings through management and technology has been an area where our members have faced challenges in decarbonising their assets. Linked to this is the skills shortage mentioned in question 2, with a knowledge and skills gap meaning that there is a shortage of professionals trained to implement new technologies used in decarbonising buildings. Some members hold long-term assets with FRI leases, in which they are quite limited in the amount of control they have over changes that can be made to make the building more sustainable.

Other challenges include:

- Data sharing between property owners and tenants<sup>90</sup>
- Split incentives between property owners and tenants<sup>91</sup>
- Lack of Government incentives and support in overcoming market failures
- Short termism with some investment products and investors
- Legal barriers – leasing<sup>92</sup>

Please see Q2 for further detail.

## 10. Looking at the international market in your sector, what green opportunities are nascent or growing?

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<sup>89</sup> [Beyond the Business Case report 2021 | World Green Building Council \(worldgbc.org\)](https://www.worldgbc.org/reports/beyond-the-business-case-report-2021)

<sup>90</sup> <https://www.mandg.com/investments/institutional/en-gb/insights/2022/q1/redefining-tenant-investor-relationships-on-the-journey-to-net-z>

<sup>91</sup> <http://cbei.psu.edu/split-incentives-and-green-leases/>

<sup>92</sup> <https://www.kingsleynapley.co.uk/insights/blogs/real-estate-law-blog/green-leases-a-way-for-landlords-and-tenants-to-meet-their-environmental-targets>



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As noted above, real estate investors and lenders internationally are increasingly scrutinising the ESG strategies of assets and funds. This applies to both domestic investors and international investors. Skills in the development and delivery of net zero fund strategies are therefore a highly marketable and transferable across the world. This is a fact already recognised by the Department for International Trade and others.<sup>93 94</sup>

Establishing London as the global green capital of the world offers advantages to the real estate investment market. London ranks #1 in the Global Green Finance Index (GGFI) and tops all areas of competitiveness. The London Stock Exchange was the first to launch a Voluntary Carbon Market designation.

In the 2018 as part of the [London Environment Strategy](#), the mayor set London's ambition for the capital to be net zero carbon by 2050 and transition to a circular economy. The London Sustainable Development Commission has identified green finance as a key part of its work programme and is working with the GLA. The strategy has called for a London Future Finance Facility (LFFF) which would have four central objectives:<sup>95</sup>

- Securing a flow of investment that responds to the needs of environmental projects by the mid-2020's which is of sufficient scale and nature to meet the needs of London's decarbonisation projects and London's revised 1.50C trajectory.
- Ensuring all parts and communities of London enjoy the benefit of its activities as a driver of 'inclusive growth' and as part of the delivery of the transition to a low carbon circular economy.
- Supporting London to become the global centre for the low carbon circular economy.
- Demonstrating the efficiency, effectiveness and social value of integrated climate and environmental financing, helping this approach to investing in multi-issue projects at an area level to become the new normal.

In 2021 the CBI unveiled a "landmark" economic plan to drive decarbonisation, innovation, and 'levelling-up' that it claims could be worth £700bn in commercial growth for UK companies.<sup>96</sup> The work also estimated the country could capture £8bn in additional revenues from hydrogen electrolyser production alone – a technology with potential applications for buildings and industrial processes.

The BBP membership highlight further green opportunities for potential export internationally:

- Regulation on solar panelled roofing becoming more relaxed in certain jurisdictions for certain assets e.g., roofs for commercial buildings in France presenting technology opportunities
- Growth in stationary fuel cell deployment in buildings
- Developments in steel and concrete technology, with the first sponge steel produced in Sweden not using fossil fuels<sup>97</sup>
- Low embodied carbon manufactured goods
- Consultancy and advisory services

## 11. What challenges has the net zero transition presented to your business?

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<sup>93</sup> <https://www.great.gov.uk/campaigns/green-finance-and-professional-business-services-ensuring-that-the-energy-transition-gets-the-funding-it-deserves/>

<sup>94</sup> <https://www.great.gov.uk/international/content/investment/sectors/greener-buildings/>

<sup>95</sup> [https://www.london.gov.uk/sites/default/files/green\\_finance\\_exec\\_sum\\_online\\_0.pdf](https://www.london.gov.uk/sites/default/files/green_finance_exec_sum_online_0.pdf)

<sup>96</sup> <https://www.businessgreen.com/news/4031720/seize-moment-cbi-unveils-net-zero-driven-uk-economic-strategy>

<sup>97</sup> <https://www.ssab.com/en-gb/news/2021/08/the-worlds-first-fossilfree-steel-ready-for-delivery>

Please see our response to Q2 and Q9

## 12. What impacts have changing consumer choices/demand had on your business?

For real estate investment businesses, demand pressures come from three key sets of stakeholders – investors, who supply investment capital, occupiers, who provide the demand for space, and lenders, who provide debt investment.

Firstly, investors.

- There has been a notable increase in reporting requirements and expectations around carbon from investors, with rising investor requirements around net zero / ESG. Investors increasingly need climate risks to be managed through the transition to net zero carbon.
- Evora produce an annual investor survey.<sup>98</sup> In 2022 this found that 92% of respondents considered ESG issues to be materially important to the real asset investment lifecycle, and 75% of respondents said they always utilise ESG data for investment decision-making.
- The UN-convened Net Zero Asset Owner Alliance (NZAOA) is a member-led initiative of institutional investors committed to transitioning their investment portfolios to net-zero GHG emissions by 2050 – consistent with a maximum temperature rise of 1.5°C. The NZAOA now has 78 members managing more than \$10.8Tr in Assets Under Management.<sup>99</sup>
- According to a recent JLL survey of investors, sustainability and climate change are deemed to have the greatest impact on real estate performance, with two thirds stating that they would be increasing their allocations to more sustainable properties.<sup>100</sup>

Secondly, occupiers.

- Increasing occupier demands for green energy, low carbon spaces and more efficient buildings have been notable. According to the JLL Future of Work Survey 2022, 74% of occupiers surveyed say they are likely to pay a premium for green credentials. 56% plan to do so by 2025.<sup>101</sup>
- The JLL ‘Decarbonizing the Built Environment Survey 2021’ found that 83% of occupiers and 78% of investors believe climate risk is financial risk, and 42% of occupiers believe that their employees will increasingly demand green and healthy spaces.<sup>102</sup>
- CBRE research on office occupier preferences found 44% of respondents listed ‘Sustainable building features and operations’ as an ‘in-demand building feature’.<sup>103</sup>
- Some members believe that the more recent trend of increasing energy prices is likely to begin influencing occupier preferences soon, with occupiers likely to place greater emphasis and attention on their energy costs and increasing the demand for lower carbon and energy workspaces.
- Derwent London recently undertook a ‘Net Zero Carbon Occupier Survey’ to better understand where occupiers are on their sustainability journey and build a picture of the key barriers and challenges occupiers face.<sup>104</sup>
- The BBP’s own research has identified four areas in which there is greater pressure from occupiers, and pressure for greater owner-occupier collaboration:

<sup>98</sup> <https://evoraglobal.com/wp-content/uploads/2022/01/FC780-EVORA-Investor-Survey-2021-Combined-20220118-v3.pdf>

<sup>99</sup> <https://www.unepfi.org/net-zero-alliance/alliance-members/>

<sup>100</sup> <https://www.us.jll.com/en/trends-and-insights/research/decarbonizing-the-built-environment>

<sup>101</sup> <https://www.jll.co.uk/content/dam/jll-com/documents/pdf/research/global/jll-future-of-work-survey-2022-v1.pdf>

<sup>102</sup> <https://www.jll.co.uk/content/dam/jll-com/documents/pdf/research/global/decarbonizing-the-built-environment.pdf>

<sup>103</sup> <https://clients.hamilton-brown.digital/files/cbre/42016415/42016415-European-Occupier-Sentiment-Survey-v15.pdf>. May 2022

<sup>104</sup> <https://www.betterbuildingspartnership.co.uk/derwent-london-leads-occupier-engagement-climate-action>

- corporate climate commitments: As stakeholders increasingly demand more robust, transparent and evidence based corporate climate commitments, the drive to achieve more evidence-based Net Zero targets will require more effective owner-occupier collaboration. The Science Based Targets Initiative, with over 2,300 companies committed globally, requires companies to account for emissions within their value chain, including properties, within their near and long-term targets.
- Regulatory drivers: Ever-more stretching environmental regulations within the property sector inherently involve collaboration between owners and occupiers. For example, planned and proposed changes to the Minimum levels of Energy Efficiency Standard (MEES), which are likely to increase the Energy Performance Certificate rating of rented commercial property, will rely on owner-occupier collaboration the specification and fit-out of properties.
- Societal changes: While recent decades have seen a gradual shift towards sustainability across all sections of society, the climate and biodiversity crisis, compounded by the effects of the COVID-Pandemic, are driving a radical change in demand for sustainable living and work environments. For example, employees are seeking employers with workplaces that meet ethical, wellbeing and sustainability expectation. Demonstrating this will involve providing more sustainable workplaces, relaying on collaboration between owners and occupiers in the design, fit out and operation of commercial real estate.
- Finance and risk: The commercial real estate finance sector is witnessing a dramatic shift in attitudes towards the sustainability agenda. Leading lenders are exploring new opportunities that go well beyond traditional risk management through sustainability initiatives that drive new business, strengthen customer relationships, and improve the data lenders hold on the buildings which they have underwritten. Likewise, initiatives such as the Taskforce for Climate-related Financial Disclosures, provide a framework for companies to consider the sustainability credentials of their property portfolios, and guide both owners and occupiers towards collaboration in developing more climate resilient properties that are fit for a low-carbon society.

### **13. What impacts have decarbonisation/net zero measures had on your business?**

Through creating and implementing their decarbonisation strategies, BBP members have seen a range of impacts on their businesses, from financial impacts and increased operational efficiency, to talent retention and technological innovation across the supply chain.

The c.800 properties that remained within the REEB (Real Estate Environmental Benchmark) database between 2018 and 2020 reduced overall energy consumption by 3 per cent per annum.

As noted in our response to question 12, sustainable, 'green' building features have been increasingly in demand from occupiers and can increase the attractiveness of a property to investors and occupiers. This is echoed by BBP members, who have found that decarbonisation and net zero measures have both improved their ability to attract investment and improved the attractiveness of assets to occupiers.

Decarbonisation measures in the built environment have been shown to improve operational efficiency. Through property management, the use of smart technology, and other measures implemented as part of their net zero strategies, members have found that the energy use of their buildings has decreased.

Feedback from our members has also shown that some members have found net zero measures have increased their ability to attract and retain talent. Finally, the economy-wide transition has supported innovation across the supply chain, including improvements in low-carbon materials and building processes.

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The BBP has a wide range of case studies that provide an insight into practical initiatives that have been implemented and the impacts on the business. A selection of relevant case studies from the past 5 years can be found here:

SMART enabled buildings: <https://www.betterbuildingspartnership.co.uk/smart-enabled-truly-sustainable-future-%E2%80%93-jj-mack-building>

Workspace Group - Cutting Whole Life Carbon:

<https://www.betterbuildingspartnership.co.uk/workspace-transforms-leroy-house-%E2%80%93-cutting-whole-life-carbon>

Orchard Street - Transformation of Industrial portfolio EPCs:

<https://www.betterbuildingspartnership.co.uk/orchard-street-investment-management-transforms-energy-performance-across-industrial-portfolio>

Orchard Street – Carbon Neutral Industrial Park

<https://www.betterbuildingspartnership.co.uk/orchard-street-investment-management-delivers-carbon-neutral-industrial-park>

LGIM (Legal & General Investment Management) - Life-Cycle Carbon Assessments

<https://www.betterbuildingspartnership.co.uk/legal-general-outperforms-industry-targets-lifecycle-carbon-north-quay-house>

GPE – Internal Carbon Pricing:

<https://www.betterbuildingspartnership.co.uk/gpe-accelerates-progress-net-zero-through-industry-leading-internal-carbon-price>

Savills IM – Bourn Quarter Net Zero Carbon <https://www.betterbuildingspartnership.co.uk/bourn-quarter-business-park-leads-net-zero-carbon-and-wellbeing>

DWS – Closing the Performance Gap at 2 Redman Square

<https://www.betterbuildingspartnership.co.uk/closing-performance-gap-one-uk%E2%80%99s-most-sustainable-buildings>

Federated Hermes – Portfolio Carbon Emissions Reductions

<https://www.betterbuildingspartnership.co.uk/international-business-federated-hermes-successfully-decouples-carbon-emissions-and-portfolio-growth>

Abrdn – Carbon Neutral Airport Industrial Portfolio

<https://www.betterbuildingspartnership.co.uk/aberdeen-standard-investments%E2%80%99-airport-industrial-portfolio-go-carbon-neutral>

Abrdn – Ecopilot Trial

<https://www.betterbuildingspartnership.co.uk/aberdeen-standard-investments-partners-energy-efficiency-and-wellbeing-pilot>

Nuveen – Solar Energy on the Janus Henderson Fund:

<https://www.betterbuildingspartnership.co.uk/harnessing-solar-energy-through-partnership-approach>

Derwent London – 80 Charlotte Street Net Zero Building



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<https://www.betterbuildingspartnership.co.uk/harnessing-solar-energy-through-partnership-approach>

Schroders – Portfolio Wide Energy Reduction Targets Exceeded

<https://www.betterbuildingspartnership.co.uk/schroder-real-estate-collaborates-exceed-energy-reduction-target>

Schroders & Knight Frank – Voltage Optimisation Programme

<https://www.betterbuildingspartnership.co.uk/voltage-power-optimisation-%E2%80%93-simple-way-cut-energy-costs>

CLS – Doubling PV Output

<https://www.betterbuildingspartnership.co.uk/cls-holdings-plc-nearly-doubles-its-pv-output>

LGIM – Upskilling Teams to deliver against REEB energy benchmarks

<https://www.betterbuildingspartnership.co.uk/how-upskilling-teams-can-halve-energy-costs-%E2%80%93-210-high-holborn>

Workspace Group – Chester House Whole Life Carbon Assessment

<https://www.betterbuildingspartnership.co.uk/chester-house-whole-lifecycle-carbon-analysis>

#### **14. What more could be done to support your business and/or sector to decarbonise?**

Please see responses to other questions.

#### **15. Do you foresee a role for your business within an expanded UK supply of heat pumps, energy efficiency, electric vehicles, hydrogen economy or clean power?**

The real estate sector is likely to be a significant source of demand for a wide range of low carbon heating and energy efficiency technologies. Heat pumps will be widely installed as part of low carbon retrofits across the sector as heating is decarbonised. Our members are at varying stages in decarbonising heat across their portfolio, with some already removing gas from all assets, and supporting the growth of decarbonised energy and heat sources.

Some members are directly involved in the supply of energy efficiency services, which in turn will create demand for heat pumps, clean power and electric vehicle charging infrastructure in and around buildings.

Also:

- Incorporation of building integrated renewables and on-site renewables as an income stream.
  - <https://www.betterbuildingspartnership.co.uk/aberdeen-asset-management-completes-large-solar-pv-installation-biffa-waste-services>
  - <https://www.betterbuildingspartnership.co.uk/harnessing-solar-energy-through-partnership-approach>
  - <https://www.betterbuildingspartnership.co.uk/landsec-unveils-uk%E2%80%99s-largest-shopping-centre-solar-panel-system>
  - <https://www.betterbuildingspartnership.co.uk/hammerson%E2%80%99s-first-car-port-solar-array>
  - <https://www.betterbuildingspartnership.co.uk/pv-retrofits-more-just-space-and-business-case>
  - <https://www.betterbuildingspartnership.co.uk/orchard-street-investment-management-transforms-energy-performance-across-industrial-portfolio>

- <https://www.betterbuildingspartnership.co.uk/aberdeen-standard-investments%E2%80%99-airport-industrial-portfolio-go-carbon-neutral>
- <https://www.betterbuildingspartnership.co.uk/segro-%E2%80%93-retrofitting-pv-roof-panels>
- Incorporation of EV (Electric Vehicle) charging infrastructure within commercial real estate sites.
  - <https://www.betterbuildingspartnership.co.uk/crown-estate-and-savills-partner-transform-employee-and-visitor-greener-travel>
  - <https://www.betterbuildingspartnership.co.uk/crown-estate%E2%80%99s-rushden-lakes-commended-green-travel>
  - <https://www.betterbuildingspartnership.co.uk/bourn-quarter-business-park-leads-net-zero-carbon-and-wellbeing>
  - <https://www.betterbuildingspartnership.co.uk/segro-park-enfield-shows-bright-future-wellness-warehouses>
  - <https://www.betterbuildingspartnership.co.uk/orchard-street-investment-management-delivers-carbon-neutral-industrial-park>

A total of 18 independent studies produced since 2019 — including by the IPCC, IEA (International Energy Agency) and McKinsey — have ruled out hydrogen playing a key role in the heating of buildings, according to a list compiled by renowned energy expert Jan Rosenow.<sup>105</sup>

## 17. How many green jobs do you estimate will be created in your sector by 2030?

The transition to net zero presents a significant economic opportunity in terms of job creation. The International Labour Organization (ILO) also estimates that 24 million jobs worldwide could be created by the green economy alone by 2030.<sup>106</sup> Specifically in the built environment, many new green jobs will be needed to reduce emissions across the building lifecycle. This includes jobs in design and pre-construction, materials and components, construction, operation and retrofit.

There is agreement in the built environment sector that there is currently an ESG skills gap, and that more jobs will be needed to enable the net zero transition. For example, a recent survey of industry professionals by the City of London’s Skills for a Sustainable Skyline Taskforce found that 87% of respondents agreed there is a growing ‘green skills’ gap in the commercial built environment, and 91% agreed that the sector lacks sufficient skilled workers to achieve net zero targets.

The Construction Industry Training Board estimates the need for an additional 350,000 workers by the late 2020s (in building retrofits) to meet the requirements of the net zero transition.<sup>107</sup> Heat pump installation alone will be a large area of green job growth, with the Green Jobs Taskforce Report estimating 60,000 workers could be needed for heat pump installation in domestic and non-domestic buildings by 2050.<sup>108</sup> Other aspects of decarbonising buildings will create more green jobs; research suggests that green building fabric, for example, could create 35,000 jobs by 2050.<sup>109</sup>

The C40 Cities Initiative, led by Chair and Mayor of London Sadiq Khan, have united to spearhead the creation of 50 million good, green jobs by the end of the decade. C40 mayors represent hundreds of millions of residents and a quarter of the global economy. In a landmark collaboration, scores of mayors

<sup>105</sup> <https://www.rechargenews.com/energy-transition/revealed-what-18-independent-studies-all-concluded-about-the-use-of-hydrogen-for-heating/2-1-1240962>

<sup>106</sup> <https://www.reit.com/news/blog/nareit-developments/should-i-work-esg-or-csr-role-real-estate-industry>

<sup>107</sup> <https://www.citb.co.uk/about-citb/news-events-and-blogs/net-zero-350-000-new-construction-roles-to-be-created-by-2028/>

<sup>108</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1001940/green-jobs-taskforce-report.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1001940/green-jobs-taskforce-report.pdf)

<sup>109</sup> <https://www.lloydsbankinggroup.com/assets/pdfs/who-we-are/green-economy/green-growth-opportunities-for-uk.pdf>

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are today setting out the actions they are taking to deliver good, green jobs in cities around the world. London, for example, has committed to double the size of the green economy to £100 billion by 2030, an ambition that would kick-start greater job growth over the next decade.<sup>110</sup>

Further data and reports on green job potential in the UK market, with a focus on real estate and asset management:

- <https://www.reit.com/news/blog/nareit-developments/should-i-work-esg-or-csr-role-real-estate-industry>
- <https://environment-analyst.com/uk/107633/uk-based-esg-recruitment-rises-rapidly>
- <https://www.thecorporategovernanceinstitute.com/insights/news-analysis/number-of-esg-jobs-set-to-soar-esg-qualification/>
- <https://www.edie.net/uk-government-not-on-track-to-achieve-green-jobs-target-latest-official-data-suggests/#:~:text=The%20Government's%20green%20jobs%20target,time%20equivalent%20roles%20by%202030.>
- <https://www.gov.uk/government/news/green-jobs-delivery-steps-up-a-gear>
- <https://www2.deloitte.com/uk/en/pages/consulting/articles/green-skills-for-green-economy.html>

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<sup>110</sup> <https://www.c40.org/news/50-million-green-jobs-by-2030/>