

Green investment – an asset value?

Miles Keeping
Director

Agenda

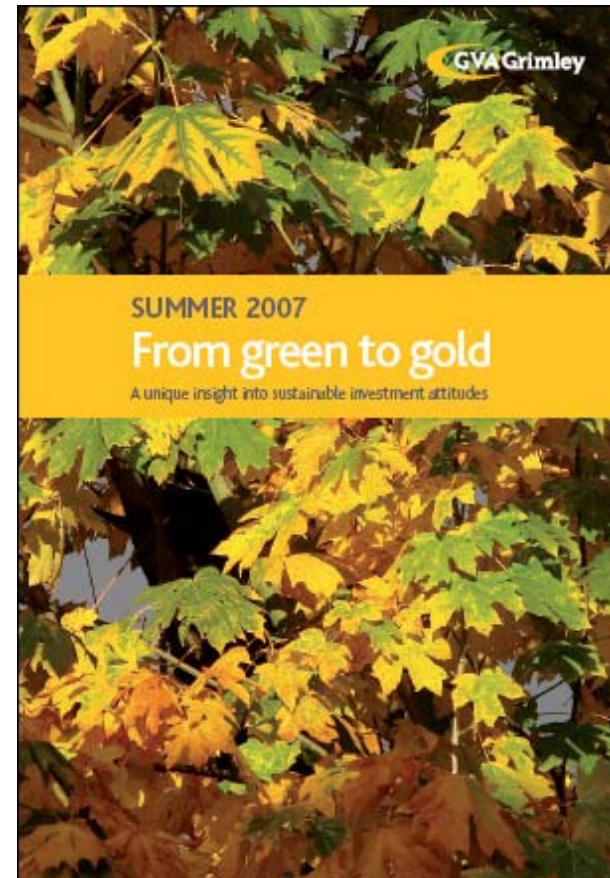
Making office buildings greener:

- How is it an issue?
- Why is it an issue?
- What are the effects of this on value?
- How can landlords capture the benefits of greener offices?

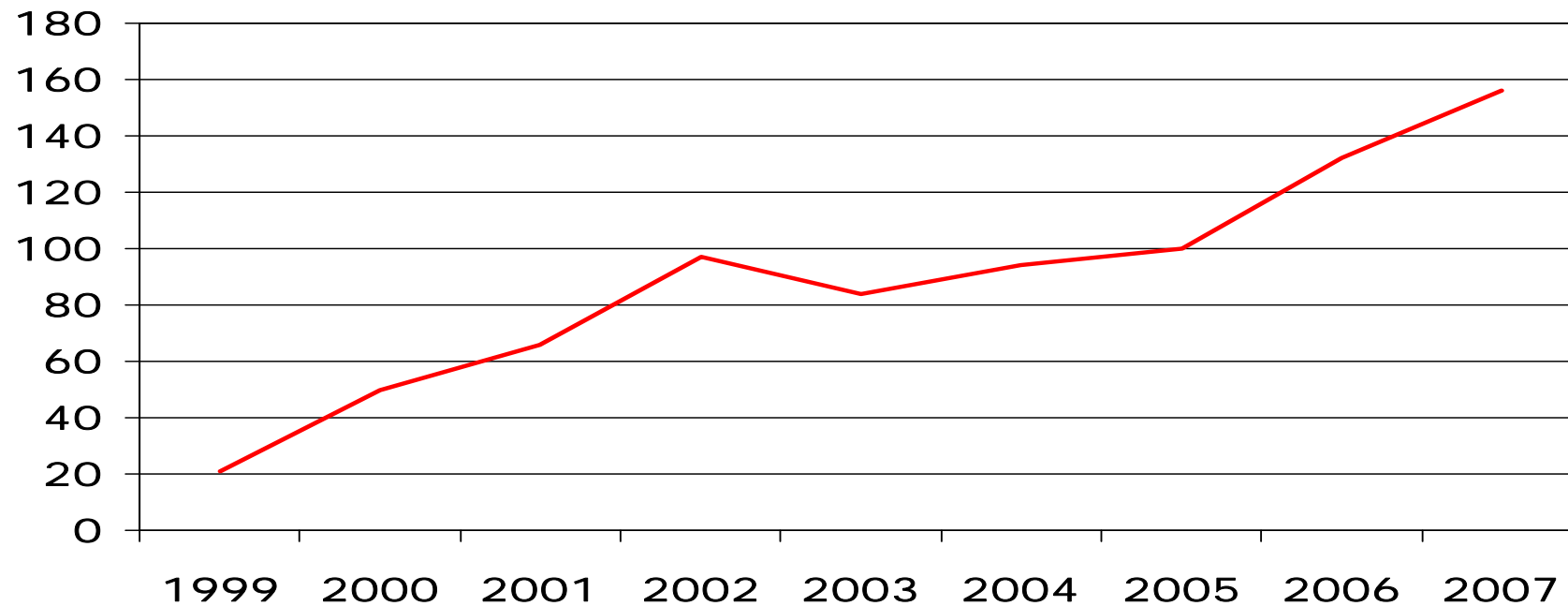
Environmental sustainability in the built environment

- Is on the agenda or is at least 'an issue'
- Is a new risk factor

**Why is this so?
And
How is this evident?**

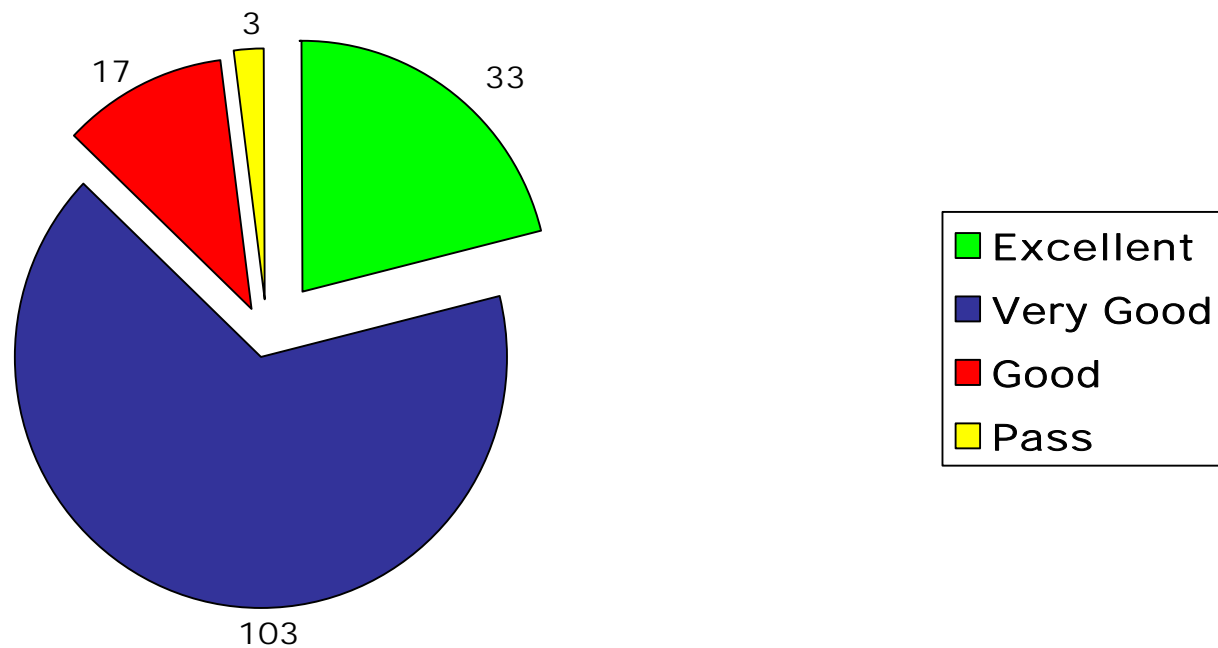


The evidence..... Number of BREEAM offices assessments 1999 - 2007



Source: BRE 23/11/2007

Breakdown of the 156 BREEAM Offices assessments undertaken during 2007*



How is the market responding?

- What is really happening on the ground?
- Government departments?
- Corporate Occupiers?
- What are developers doing? - Speculative development

Government market evidence

Red Kite House, Wallingford -BREEAM Excellent

- Green features:
 - Natural ventilation and nocturnal cooling
 - Photo-voltaic cells and solar panels
 - Rainwater harvesting
 - 25% less CO₂ and 40% lower water demands than current eco-friendly offices



Government market evidence

Civil Justice Centre, Manchester

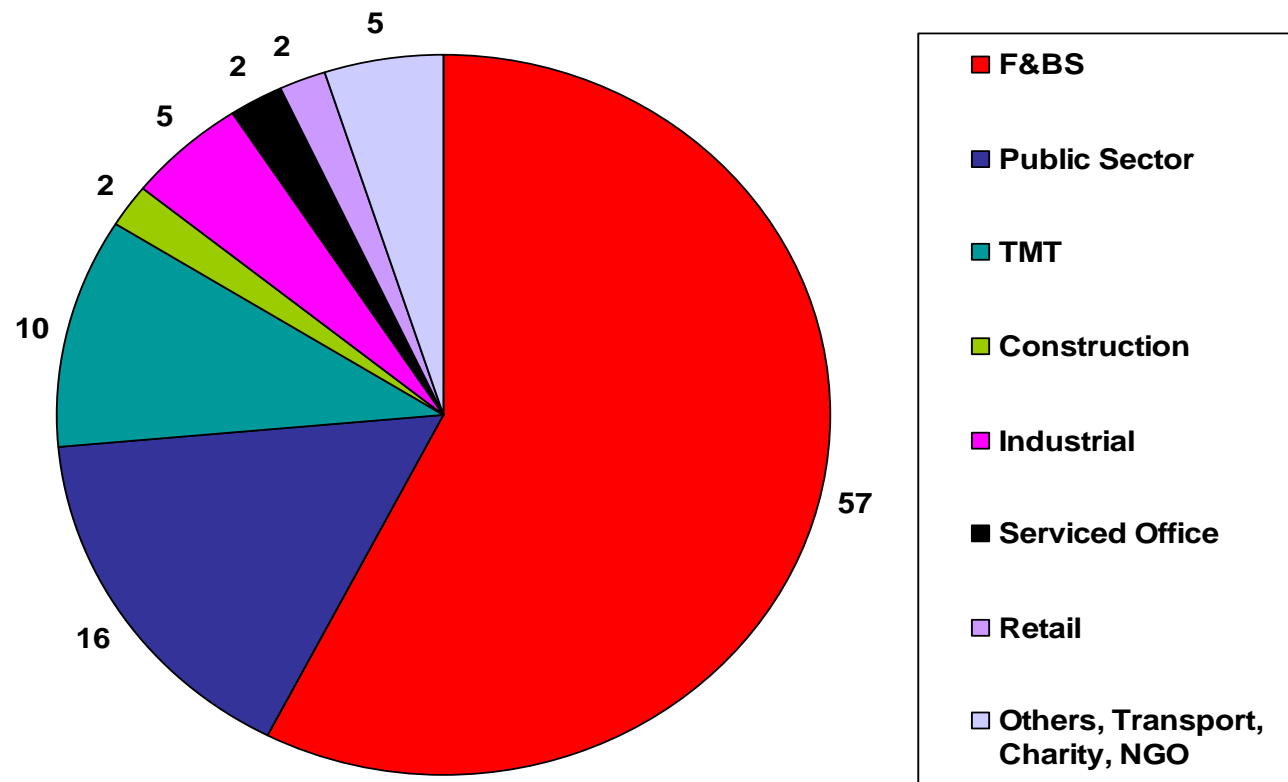
- Winner of multiple ‘green awards’
- Green features:
 - Low energy building
 - Natural ventilation
 - Groundwater cooling
 - High day-lighting levels



How important is government demand?

- Require BREEAM excellent for new build or very good for refurbishments
- Public sector take up to the twelve months to September 2007 was 16% across the UK.
- Representing 1.8m ft²
- But what about the 6.5m ft² acquired by financial business services?

Floor space transacted by sector, % (12 months to September 2007)



Corporate market evidence

**HBOS, Bristol Harbourside – Project Green
BREEAM Excellent**



Corporate market evidence

**KPMG, Snow Hill
Birmingham –
BREEAM Excellent**



Corporate market evidence

**7 More London –
PriceWaterhouseCoopers
BREEAM Excellent
450,000 ft²**



HOW IS THE UK'S SPECULATIVE OFFICE MARKET RESPONDING?

London – the next generation

1 Merchant Square (Paddington Basin), W2 – BREEAM Excellent

257,000ft²

- Tri-generator on site (power, heating and cooling)
- Biofuel and PV cells
- Rainwater harvesting
- Exceeds all current energy codes and London renewables benchmark



Birmingham – the next generation

- **11 Brindley Place – BREEAM Excellent**



Bristol – the next generation

- Temple Back – BREEAM Excellent



Leeds – the next generation

- **Latitude – BREEAM Excellent**



Manchester – the next generation

- **Piccadilly Place – BREEAM Excellent**



Edinburgh – the next generation

- **Interpoint,
Haymarket –
BREEAM
Excellent**



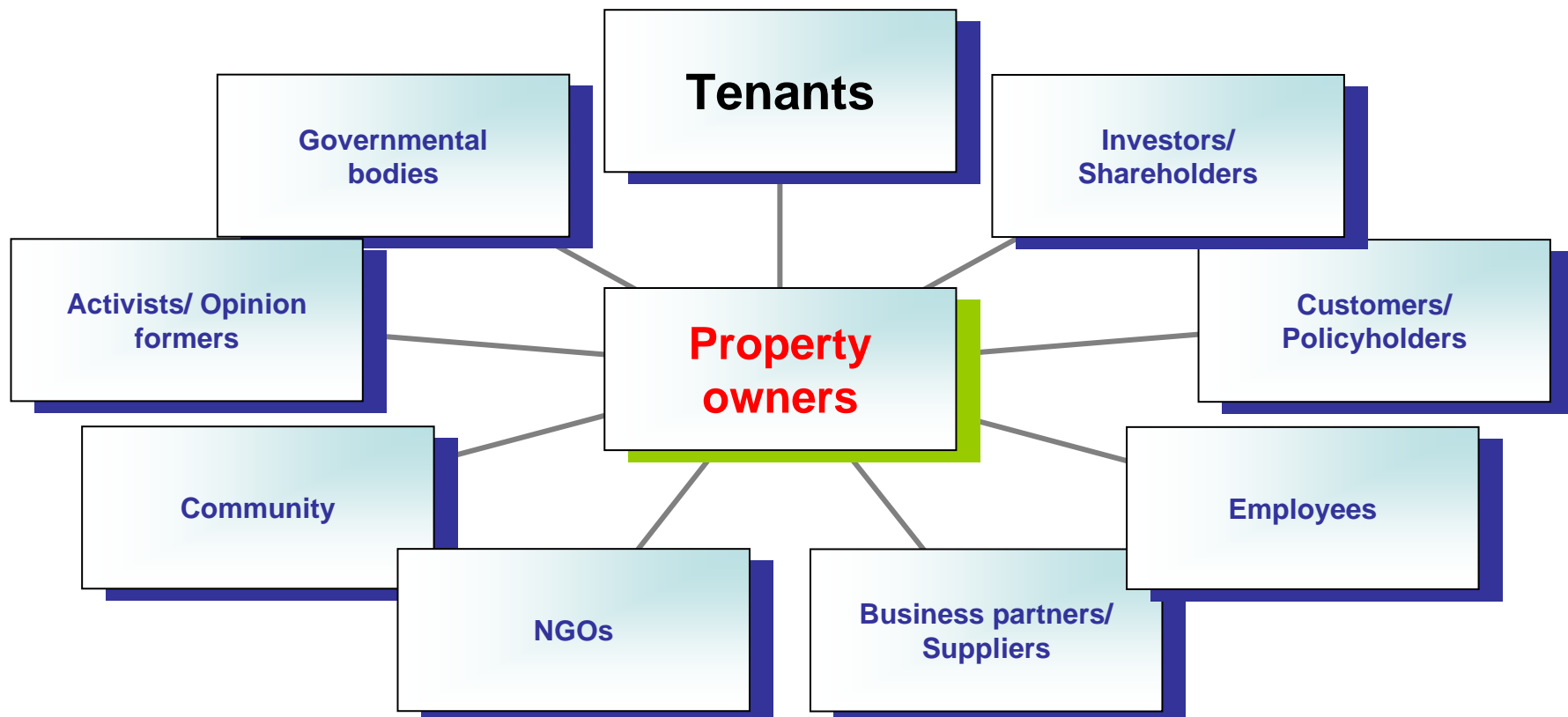
Summary....

- Not all markets are the same
- Location is still king
- New stock is only about 2% of market
- But, greener stock will be the market norm in future
- Legislation may have the final say.

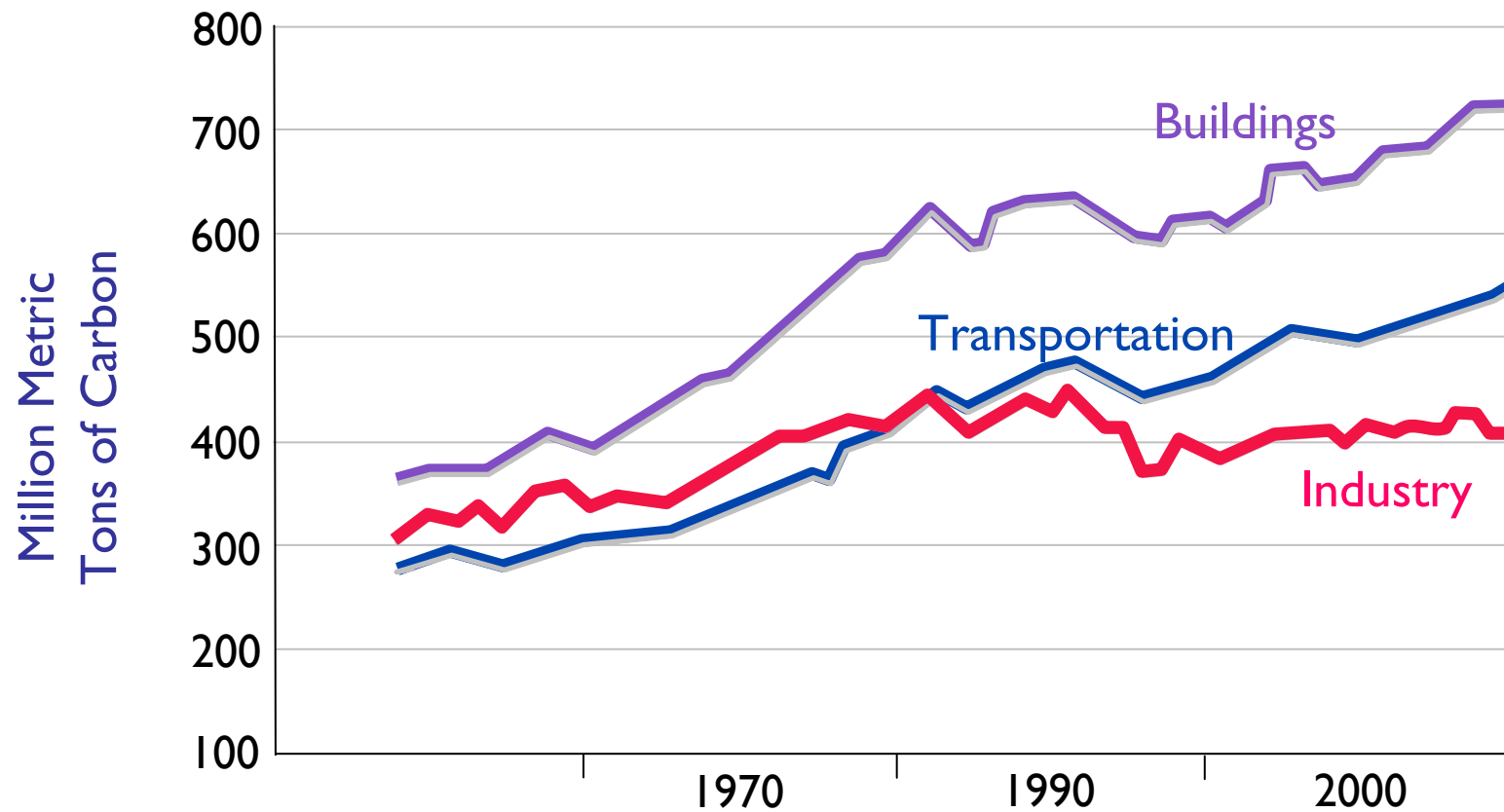
So, why are these & other buildings green?

- **Environmental necessity**
- **Regulatory change**
- **Market demand**

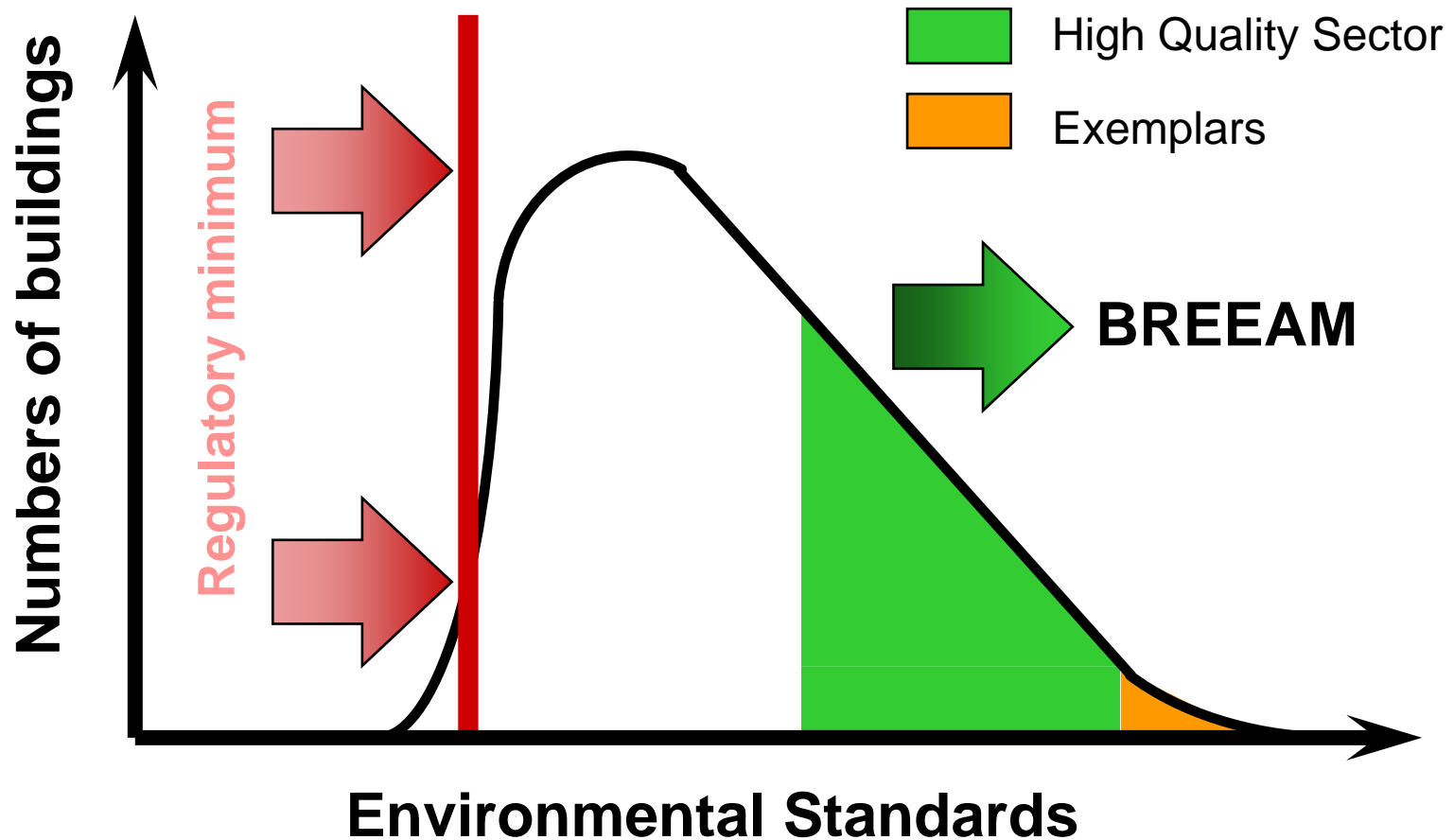
Where do demands for change come from?



CO₂ & Property meta trends



Regulations are tightening...



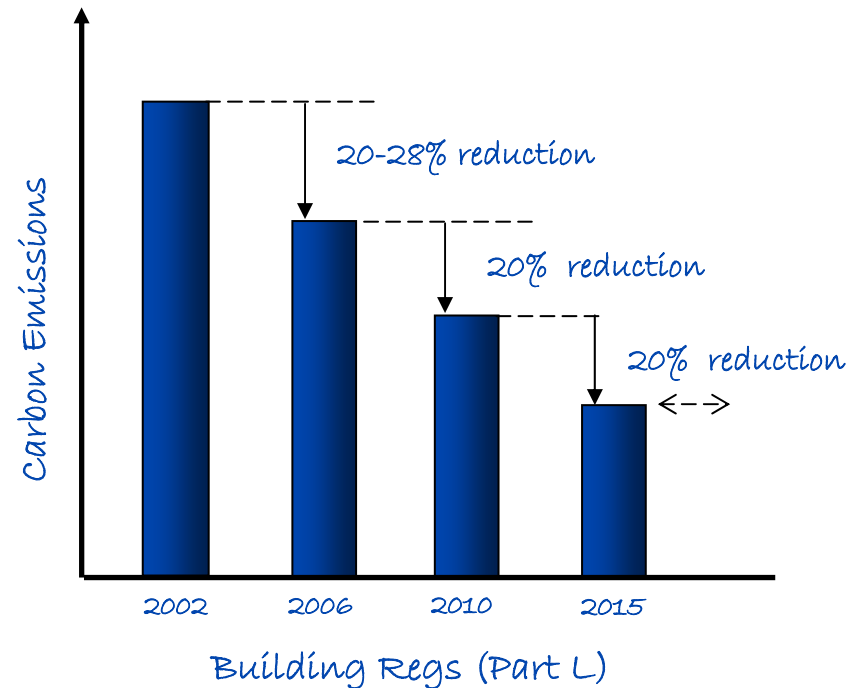
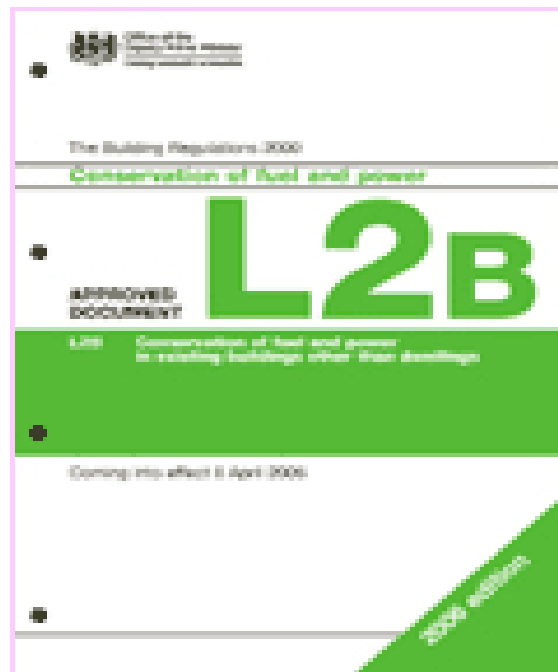
... For existing property

- Energy Performance of Buildings Directive (EPBD)
- Energy Performance Certification required on buildings at point of sale, rent or following “major” refurbishment from April 2008
- Will affect UK & European buildings
- Impact of Asset Rating will affect the market



... and for new build (& refurb) projects

- Energy codes will reduce carbon intensity in new UK building stock by 50% in 13 years



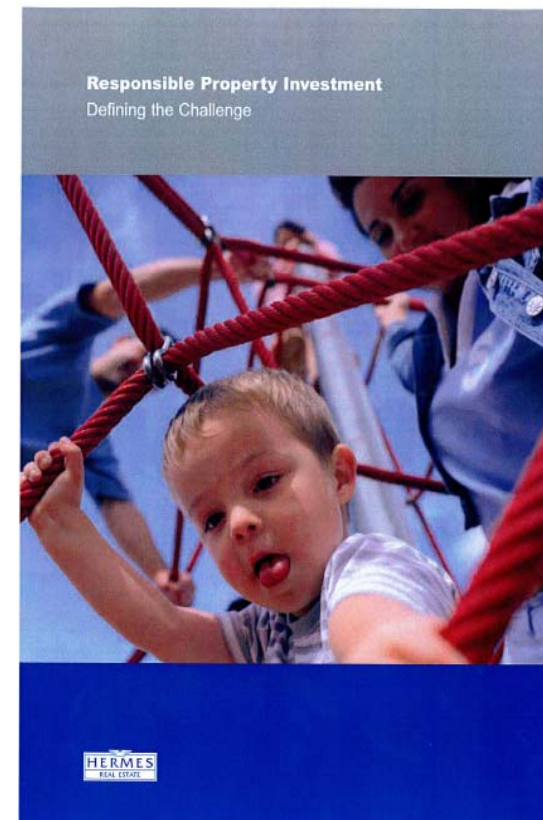
Carbon in practice

In other words, this is a lifecycle issue for all property stakeholders



Key property players have bought into it

“Hermes believes that a comprehensive and clearly articulated approach to “Responsible Property Investment” is an essential step to addressing the growing CSR changes that exist within the property investment market”.



What some other organisations say...

“business practices that are economically, socially and environmentally sustainable”



“put sustainability at the heart of the development process”



“... committed to minimising the environmental impacts of our business operations”



“We have developed a strategy to reduce our energy use & limit our impact on climate change”



Do organisations want a sustainable approach to business?



CoreNet “Green Buildings White Paper”:
occupiers have bought into sustainability



Gensler

72% of property occupier directors believe their
business suffers financially from buildings’
environmental inefficiency



‘Carbon Disclosure Project’: Cost of carbon may
erode FT Global 500 companies’ annual net
income by up to 45%

So what is the business case for greener buildings?

Adding Value for a Low Carbon Future

- Differentiation
- Increased building value
- Lower energy bills
- Enhanced building visibility
- Meeting CSR agenda
- Market demand
- Attraction and retention of employees
- Faster planning approval
- Tax and regulatory incentives

What are the effects of this on value?

- Will rents be higher for green offices?
- Will capital values be higher?

The questions all landlords want answered...

- Will tenants pay more?.....

.....Is the wrong question to ask

- More importantly.....

.....Will you let it more quickly?

SOME WILL PAY

Aztec 500 – WS Atkins

- BREEAM Very Good
- Green features/spec are...
 - Active chilled beam
 - Ground source heat pumps
 - Grey water recycling
 - Natural night cooling



SOME WILL LET MORE QUICKLY

THINK, 160 Tooley Street, Southwark

- BREEAM Excellent
- Green features:
 - Low energy cooling
 - Modularisation and prefabrication
 - Recycled aggregates in cladding
 - Hollow column air ducting

THINK160
TOOLEY STREET



What landlords should expect from green buildings

- Better tenant retention and shorter void periods
- Lower operation and maintenance costs
- Grants, subsidies, tax breaks to reduce CO₂ emissions
- Improving business productivity for occupants
- Higher values and stronger growth...

Implications for investment value

Occupiers and investors will expect market-leading property to possess strong sustainability credentials

- Definition of 'prime property' will include 'green' characteristics
- Lower grades of property will be viewed as discountable

**There will be an impact
on investment yields...**

What are sustainable investments worth?

If anything affects the risk premium, rental growth prospects and possibility for depreciation, capital value will be affected

'Green' properties are likely to have:

- Lower total occupation costs (utilities; tax)
- Higher rental growth rates (occupier preference)
- Reduced risk premia (increased liquidity)
- Smaller capital injections (to meet regulations).

The bottom line certainly matters...

- Energy (Certification)
- Green value: Tiered market?
- Building performance
- “Future proofing”: Reducing obsolescence risk.



... but sustainability benefits are not just about money

- Landlords can align their own CSR aspirations & attract occupiers with strong CSR policies

How can the benefits of green buildings be captured by landlords?

Key questions:

- What do tenants want?
- How are these likely to change?
- How can these requirements be addressed?

Some of the key questions from potential tenants...

- What are the carbon footprint & energy cost of this building?
 - What is the BREEAM rating of this building?
- How secure is the energy supply to this building?
- What attitudes does the landlord have to environmental improvement?
 - **Will they work with us to help us improve our environmental performance?**

Emerging Themes

- Landlord / Tenant Relations
- Off Grid Buildings
- New Services Partnerships
- Getting the product 'right'

Ensuring property doesn't become a depreciating liability but an appreciating asset

.. And some responses to these

- Think about the key 'green lease' terms
- You can 'future-proof buildings' against changing requirements and regulations
- The cost and value implications of BREEAM ratings need to be considered very early
- 'Green' property funds can be set up to create good returns

CONCLUSIONS

- This is a reality!
- Early adopters will benefit most
 - Regulations are rapidly changing
 - Tenant demand on a steep upward curve
- Value implications will make the case for providing ‘green’ offices more and more compelling
- Cost implications need careful thought
 - Don’t need to be prohibitive.

Green investment – an asset value?

Miles Keeping
Director