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REAL VALUE ENGINEERING: THE IMPORTANCE OF JOINED UP THINKING WHEN IT COMES TO SUSTAINABILITY



Sustainability has gone from being a 'buzz' word and intangible concept, to a key consideration for new developments, real estate management and investment.

Substantial changes over the past few years to construction best practice (BREEAM, BCO, British Standards etc) the Building Regulations (Part L) and Government Legislation (the Energy Act) has meant that sustainability cannot be avoided.

However, whilst we are all generally aware of the reasoning behind the drive for energy efficient buildings and sustainable development, all of the benefits and opportunities may not be instantly apparent....

Firstly, and perhaps most obviously, the drive to reduce energy consumption by building more thermally efficient buildings with efficient building services systems has a net benefit to reducing costs in use of a building and in the case of larger occupiers, reduces their exposure to energy and carbon taxes. I think it's fair to say that is generally accepted and understood. What is perhaps missed when a building is being appraised/ marketed is factoring the associated saving/benefit in lifecycle costs into the overall deal.

From an investment viewpoint, it is understandably difficult to appreciate the true 'value' as there is little conclusive evidence to confirm an uplift in rental or sale values comparative to an increased spend on energy efficient and sustainable design. On that basis, the motivation for developers and property investors to pay over and above the market's 'minimum' for green credentials is inevitably limited. Having said that there are a number of leading property companies, investors and developers who believe that the evidence will come in due course and that creating 'greener buildings' is essential to safeguard future asset value, avoid obsolescence, meet emerging market demand and to differentiate themselves within their peer groups, to create a competitive advantage.

The market is changing. Larger, 'blue chip' multi-national occupiers are increasingly making property decisions based on a building's green credentials, requiring landlords to attain BREEAM, LEED or Ska ratings.

Planning authorities play a key role, too, and often grant consent on the condition that applicants meet minimum ratings when completing major refurbishments, extensions and new developments. Therefore, if a developer or investor wants to unlock the full value of site, it must meet these sustainability obligations (that can exceed the minimum requirements under Building Regulations).

Notwithstanding, there are tangible benefits to investment in sustainable, energy efficient real estate, which are gradually becoming appreciated, rather than simply expected.

As buildings are becoming greener, the benchmark for energy efficiency is raised. This inevitably creates a divergence between existing built assets and new developments. Whilst it is still questionable whether investors will pay a premium for a 'greener' building, and in prime markets such as London the premium derives from its position, inefficient buildings in other secondary locations may trade at a discount particularly where low rental values are combined with high capital expenditure.

This is particularly apparent with the impact of the Energy Act due to take effect in 2018, where it will become unlawful to lease a building with an Energy Performance Certificate with a rating of F or G. Investing in sustainable development/ retrofit technologies will therefore add (or at least maintain) value by avoiding assets becoming sustainably obsolete.

In this age of digital media, global brand awareness and the need to disassociate from true capitalism, Corporate Social Responsibility (CSR) is vital to demonstrate how a company is more than a money making machine. This can help attract customers, staff, share holder investment and generally improve how a company is perceived. On that basis, in addition to the obvious reduced operational costs that an energy efficient building will deliver, a 'green' office building/ portfolio can act as a very useful and visual marketing and PR tool (i.e. "this is how we contribute to society").



As the economic recovery continues, companies of all shapes and sizes are trying to re-establish their pre-recession headcount and associated productivity. This has created a shortage of talent and therefore the need for companies to invest in attracting and retaining the best staff needed for growth. Just as it is accepted that a poorly designed building can have an adverse effect on well being and performance, a modern, well designed office can have a positive effect on productivity and can be an important selling tool to attract staff. After all, who doesn't want to work in a nice office? Whilst this value may not be as tangible as financial directors and real estate investors may like, it should not be underestimated or ignored.

From a technical point of view, it is also worth highlighting that 'green' buildings do not need to be prohibitively expensive or outwardly 'sustainable'. Gone are the days of inefficient and clunky solar panels, wind turbines and straw bale walls (albeit these still have their place!). With well considered and properly coordinated architecture and building services engineering design, informed procurement, and a little extra investment, a truly sustainable workplace need not look any different to the slick, light and environmentally conditioned office that we come to expect.

Although at risk of appearing to contradict the statement above, sustainable technologies and 'green' initiatives can also be highly visible and a way of differentiating from the others. The perception of 'green' buildings and business practices is positive and so the use of sustainable technologies that are visible to the public can be used as an important marketing tool and an obvious way of reinforcing CSR initiatives. Rightly or wrongly, visible green 'bling' can be a more effective (and on-going) demonstration of green credentials than a full page of green claims in a national newspaper.

Most of the offices that will be in use in 2018 are already built, and so it is extremely important to be aware of how existing buildings and their services can be improved. Whilst in some cases, large capital investment may be needed, often significant improvements can be made at relatively low capital cost or as part of cyclical maintenance programmes. Good professional advice is key to ensure that any investment is properly targeted and done in a way that maximises value. When it comes to sustainability and energy efficiency in buildings, a holistic approach is key, particularly in relation to how the building engineering services interact with the performance of the building fabric.

In summary, sustainability is here to stay but it should not be considered a necessary evil. Instead, proper professional advice and a strategic approach to energy efficiency in buildings, can be a very useful way of protecting and increasing value in real estate.

What is critical to the process is properly joined up thinking. We at TFT, have recognised specialists in project management, building surveying, building services engineering and sustainability, but the value is not simply in the detail, but more through the interaction of the specialists to provide a tailored solution.

Understanding where value is, as well as the technical route to achieving/protecting that is critical.

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