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ENERGY SURVEY 2016



FOREWORD



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Partner and
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Increasingly, a significant and broad range of property firms – both investors and managers – are becoming aware of energy performance, which in part has been prompted by the introduction of Minimum Energy Efficiency Standards (MEES).

While this is an important step forward, attention has been focused on theoretical energy performance and less so on the actual performance (often referred to as the 'performance gap').

For a number of reasons, the industry hasn't been spurred into action to address this performance gap quite yet and the clock continues to tick.

TFT Energy Survey 2016 offers some insight into the current levels of attitude and awareness of energy efficiency, plus whether sustainability has dropped down or crept up the list of priorities for investors and property managers.

The results speak for themselves.

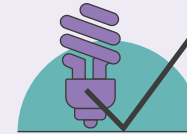
With an eye on solutions available, we are seeing a lack of confidence that's not because the measures are too risky or complex to implement, but due to financial barriers.

It is encouraging to see that we all want to reduce the environmental impact of our businesses; that is both right in of itself and also good for the bottom line.

What our survey has found is that we have some way to go to overcome the barriers still in place, particularly given Government incentives have now been pulled.

Thank you to all those individuals who took time to complete the survey and we look forward to further discussions with our clients and the markets about its conclusions.

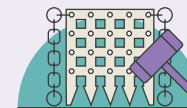
EXECUTIVE SUMMARY



Energy efficiency measures are not seen as too complex or too risky to implement



The principal barriers to energy efficiency are financial but there remains a lack of confidence in the solutions available



Regulation is still seen as too complex



Removal of government incentives has had a decelerating effect



Reducing environmental impact has become a motivating factor



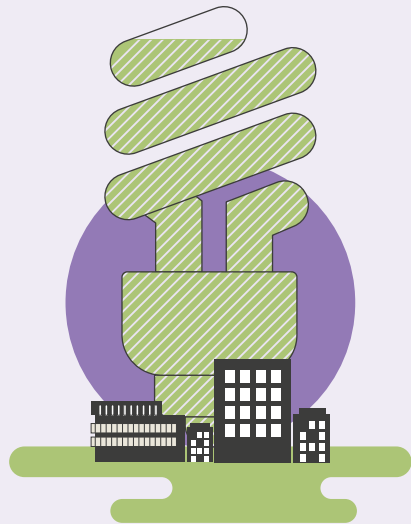
ENERGY EFFICIENCY IS
'BUSINESS AS USUAL'
FOR US..."



LACK OF INDEPENDENT
ADVICE, COMBINED
WITH GOVERNMENT
POLICY UNCERTAINTY,
HAS REALLY
UNDERMINED OUR
CONFIDENCE."

ATTITUDES AND AWARENESS

Compared to pre-recession levels:

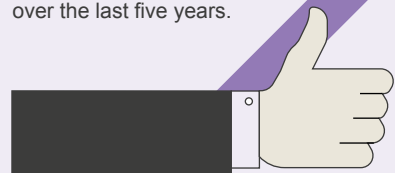


90%

confirm that energy efficiency is a **higher priority in their business.**

9 out of 10

say that attitudes have **improved significantly** over the last five years.

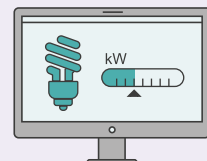


Only **50%** claim that energy efficiency is a top-five consideration when they are buying new assets.



75%

have taken the first step and undertaken energy audits of buildings and/or portfolios.



Yet only 35% have introduced a more formal 'energy management system'.



Awareness is strong, attitudes are positive, but only the minority are taking the next step.

THE ROLE OF GOVERNMENT

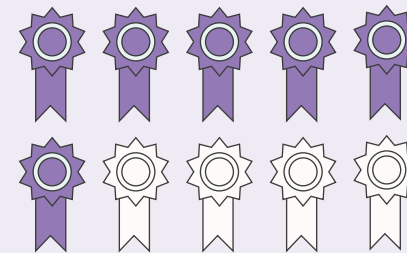
Government has two levers available on energy efficiency.



One is regulatory – the stick...



One is policy, including its approach to incentives – the carrot...



60%

of investors admit that energy policies and regulations **helped them become more energy efficient.**

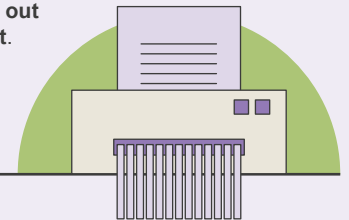
76% think that **current regulatory and policy measures are too complex.**



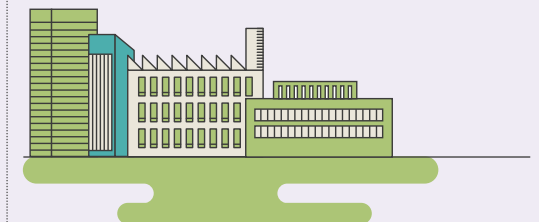
There are too many disconnected pieces of regulation, e.g. Part L, ESOS, CRC, MEES, MEPS, EPBD etc.



When looking at motivating factors driving energy efficiency, "taking advantage of government schemes" **comes out bottom of the list.**



So, unsurprisingly, 82% of owners and investors in commercial property are clear that a **lack of government incentives** – e.g. tax breaks to direct funding – is now a **major barrier** to energy efficiency measures becoming significantly more widespread across the UK real estate.



Government incentives are absolutely needed to help drive change – carrots and sticks.

FINANCIAL CONSIDERATIONS

Financial considerations serve as both primary motivator for, and main barrier to, energy efficiency in property portfolios.



of investors recognise the **investment potential** of energy efficiency projects.

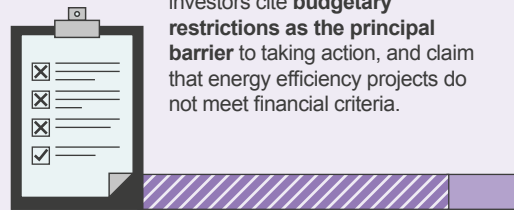


But with some mainstream banks beginning to offer funding in this area, we expect this to **fuel appetite for investment in energy efficiency** particularly for smaller scale projects which are less financially attractive and have traditionally missed out on larger funding streams.



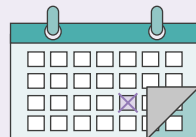
It remains the case that the **principal barriers to developing truly energy efficient real estate are financial.**

8 out of 10



Payback is a primary concern.

7-10 years for some projects is simply too long in an ever-more globalised marketplace and can be a **stopping point for landlords with short and medium term strategies** for their properties and/or tenants with short or expiring leases.



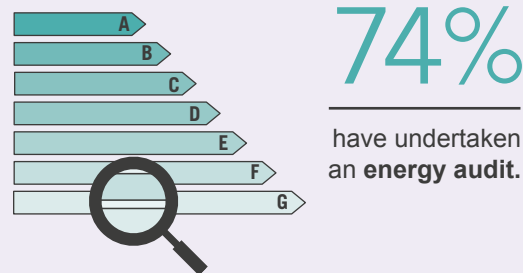
In pure financial terms, it could even be that such levels of payback could reduce an asset's competitiveness in the market, i.e. impact on value.

However, clearly payback for some technological solutions is significantly less including LED lighting upgrades.

i Money is available and investors see the scope for investment. However, implementation can cost and payback can keep investors awake at night.

CONFIDENCE

The good news...

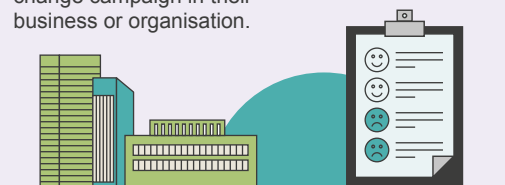


The bad news...

65% didn't introduce an energy management system.

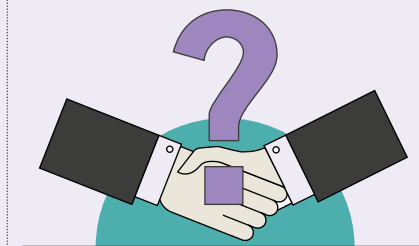
54% didn't go on to track any cost savings achieved by the measures they implement.

57% didn't implement a behavioural change campaign in their business or organisation.



Energy and sustainability experts are a cynical bunch.

3 out of 4 of investors are **concerned about a lack of impartiality in the market** among advisors and stakeholders.



A further 67% of investors indicated a **lack of trust or confidence** that end-users of buildings will have the correct support or incentive to implement energy efficiency measures.

i Lack of confidence stems from the financial barriers yet there are serious questions about the impartiality of those offering solutions.

CONCLUSIONS

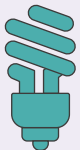
✓ GOOD



The market does not perceive energy efficiency projects as too complex to deliver only **30% of all respondents even including it on their list of barriers.**



Likewise, energy investments are not perceived as too risky – at least, our research shows that there are many greater barriers than risk.



Energy efficiency is now seen as business as usual. awareness is increasing.

✗ NOT GOOD



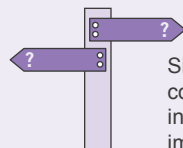
Policies and regulations that govern the sector are prohibitively complex and there is widespread market concern about their effectiveness.



The removal of government incentives has eroded confidence in this emerging market. One respondent said, “the rug has simply been pulled out from under us...”



Financial barriers and length of payback are major concerns.



Significant lack of confidence exists among investors with regard to impartiality of advice.

i WHAT NEXT?

Clearly, it's too simple just to blame government but where do we go from here?

We need to streamline and simplify regulations helping us face future energy challenges.

The market needs consistency in energy policy over the short to medium term that help to achieve long term targets.

Independent advice is critical - re-building trust in the technological solutions available.

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