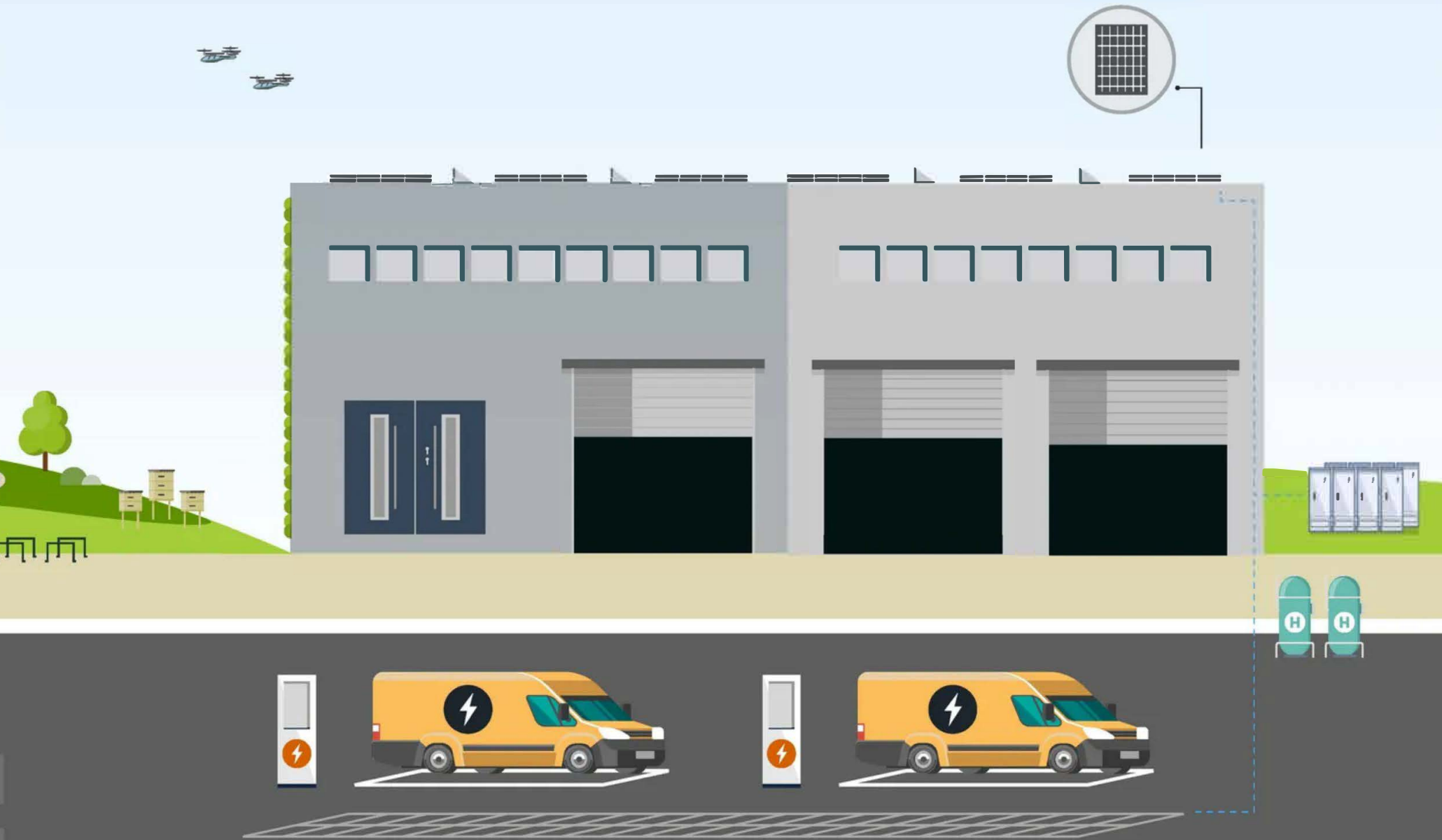


The sustainable estate of the future

Sustainability and energy security are a key concern across the real estate industry, particularly in the power hungry industrial sector.

Take a closer look at the energy conundrum facing occupiers, investors, planners and developers.



Introduction

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We have also taken a closer look at the energy conundrum – how to power new developments cheaply and cleanly in a supply constrained environment.

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Occupiers

The rising of ESG up the public agenda, coupled with the tightening of sustainability regulations, has an increase in demand for ESG accredited 'green' buildings.

[Learn more](#)

Investment

Similar to occupiers, most investors have strict ESG criteria that they must adhere to when investing. Further, strong ESG credentials can reduce the cost of debt and increase the liquidity of the asset, which is especially important in a more cautious market.

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Planning

The demand for green, flexible and adaptable industrial buildings in prime locations is high and supply is relatively low.

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Development

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Energy

Hydrogen will have a role to play in the future energy mix, with the industrial and logistics industries prime candidates for the technology, we expect the potential for hydrogen refuelling to be factored into certain new developments.

[Learn more](#)

Conclusion

Sustainability and energy security is increasingly important to occupiers. This is causing a reduction in void periods and a rental and investment premium in those premises deemed 'green'.

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Authors

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Introduction

Sustainability and energy security are a key concern across the real estate industry, particularly in the power hungry industrial sector. Occupiers and investors are targeting more sustainable premises, a trend exacerbated by the cost of power and tightening of the MEES regulations. In this article we have considered the topic from an occupational, investment, planning and development perspective.

We have also taken a closer look at the energy conundrum – how to power new developments cheaply and cleanly in a supply constrained environment.

Occupiers



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Cost

Occupiers have been subject to sharp increases in occupational and running costs over the last year, with the incoming rates revaluation set to add further expense. Occupiers are therefore keen to reduce their outgoings and make cost effective decisions on the buildings they occupy. Clearly there is an opportunity for energy savings via occupying green buildings; through energy efficiency measures and onsite renewables. However, agents and developers need to demonstrate the delta between rents and running costs for sustainable units in order to encourage occupiers and businesses of all sizes to pay the rental premium.

Quality

Occupiers want to attract and retain the best talent, and are aware that to do so, they need to occupy high quality, sustainable premises. This is becoming more pressing as businesses operating in warehouses evolve to become more technological, utilising robotics and automation - meaning they are employing more highly qualified staff such as engineers and IT experts. Occupiers have implemented rigid ESG strategies and targets, adding demand for sustainable operating space - this has become a necessity rather than a 'nice to have'. These businesses are demanding ESG compliance from their suppliers and customers, creating a cascade effect. Clearly large, forward-thinking businesses have been leading the drive towards sustainable buildings, however we are starting to see this filter down to smaller companies, who are becoming more aware of the benefits of sustainable premises.

Demand

The rising of ESG up the public agenda, coupled with the tightening of sustainability regulations, has an increase in demand for ESG accredited 'green' buildings. However, availability of these assets is still low and as such a) we are seeing a rental premium and b) some occupiers are having to take secondary premises, albeit with a view to refurbishment.

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Investment



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The investment market tends to mirror that of the occupational market; and it is no different with respect to sustainability. Investors are keen to attract the best occupiers with the strongest covenants and as such, sustainability is a key consideration.

MEES

Regulation is a key concern. The Minimum Energy Efficiency Standards (MEES) are of particular interest to investors, who are responsible for ensuring their properties are compliant, and can face steep fines if they fail to do so. Most investors are now targeting EPC's of 'B' or above, in line with the incremental regulations in April 2023, 2027 and 2030, and to remain ahead of the curve. Investors are also conducting more in-depth due diligence and energy modelling to assess the feasibility and cost to improve a building's rating. Two key questions for investors are 1) can refurbishment costs be passed onto tenants (this will depend on the lease) and 2) do energy efficiency improvements directly correlate with an increase in property value, otherwise known as the Green Premium? A lot of research suggests yes.

Flexibility & Longevity

Investors are also looking to reduce the risk of obsolescence, targeting premises which can be utilised for multiple purposes; and can be reconfigured easily to suit a variety of occupiers. Flexibility is key.

Investors are increasingly looking to the future, using AI to model factors such as extreme weather, climate change and flood risk, enabling them to assess the long term resilience of an asset. Many are also considering future transport methods – for example large scale EV charging and hydrogen refuelling. We are aware that patents are being signed for robot and drone delivery. The ability to future proof an asset is extremely valuable as market challenges and occupier demand evolves.

Demand

Similar to occupiers, most investors have strict ESG criteria that they must adhere to when investing. Further, strong ESG credentials can reduce the cost of debt and increase the liquidity of the asset, which is especially important in a more cautious market. These factors are driving a significant price differential in the market.

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Planning



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The demand for green, flexible and adaptable industrial buildings in prime locations is high and supply is relatively low. The risk of much of the existing stock becoming underutilised or vacant in the future due to its poor quality is a real possibility.

Landlords, tenants and investors have the opportunity to improve these sites through redevelopment or refurbishment to ensure they meet modern occupier needs, are sustainable in terms of power and energy efficiency, and are future proofed to ensure their continued use for years to come.

Newbuild

The benefits of a newbuild scheme include that the buildings and yard space can be designed flexibly to be adapted in the future to meet changing market demands. Ensuring newbuild schemes are sustainable should not be an afterthought but a key planning consideration that should be woven into the design from the outset as carbon credentials, energy efficiency, SUDS, biodiversity etc will need to be evidenced as part of the planning application documentation. As many developers are experiencing, the timeframes that come with a newbuild redevelopment option are often protracted with long pre-application processes which are further exasperated by Local Authorities being significantly under resourced.

Retrofit

Planning policies are increasingly encouraging a 'retrofit first' approach to development, where developers are encouraged to explore reuse and recycle option as far as possible, should be explored before opting for a demolition and rebuild. Many Retrofit/refurbishment options will offer the opportunity to improve the sustainability and energy efficiency of a building. A light touch approach may just involve improving the EPC rating through internal changes to services which would not require planning permission. Or a more extensive approach may include the addition of PV panels, biodiversity and landscaping enhancements, SUDS and flood risk mitigation measures, green and blue roofs, recladding, sustainable travel measures such as EV charging spaces, cycle parking and facilities and car share opportunities. It is always worth considering the extent of works that can be undertaken by utilising Permitted Development Rights, meaning a planning application is not required, hence speeding up the process.

These minor interventions can significantly increase the value and longevity of a site and investors and landlords alike need to be reviewing their portfolios to assess where and how the sustainability of buildings can be improved.

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Development



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Incorporating sustainable design features

At Goodman we're working proactively with our customers to respond to the challenges of climate change, exploring innovative ways to reduce carbon emissions, maximise the use of renewable energy and develop greener buildings. One of the ways we're doing this is by increasing solar capacity and installing full rooftops of solar photovoltaics (PV) on our warehouses, providing the ability to generate clean energy on-site. We're also retrofitting our existing properties with this technology, helping our customers to transition to renewable energy sources and meet their own sustainability goals.

Other design features include LED lighting with motion and daylight sensors to reduce energy use, rainwater harvesting for landscape maintenance, and investment in electric vehicle (EV) infrastructure and additional charging points to accommodate future EV fleets.

Reducing embodied carbon

Reducing our carbon emissions is vital to a low carbon future. We've started to measure the embodied carbon emissions of our developments and collaborate with our supply chain partners to integrate lower-carbon materials into our properties. Examples include the cladding panels used on our buildings, which are certified as carbon neutral, as well as products such as carpet and ceiling tiles which include a high percentage of recycled content.

Reducing embodied carbon in the built environment will require us to remain focused on efficient design, improving access to renewable energy and working in partnership with our customers to influence their own emission reduction commitments.

Current ESG trends

Our customers are focused on increasing productivity and efficiency. As they look to reduce transport emissions and costs, the location of their facilities has become even more important. We're seeing them invest in sites that benefit from established infrastructure and place them closer to consumers, helping to reduce delivery miles and meet their own ESG targets.

However, customers are also looking at ways to attract talent into the industry and retain existing staff. High quality facilities that provide a positive working environment and support employee health and wellbeing are becoming more important. That's why we're placing an increased focus on landscaping, maximising natural light in our buildings and ensuring our developments are easily accessible with good public transport links.

Approach to biodiversity

Our approach to development includes promoting biodiversity by creating environments that enhance and preserve natural habitats. As well as high quality landscaping, this includes initiatives such as woodland planting, preservation of local ponds and wetlands, and the installation of bird and bat boxes to support habitat creation and increase opportunities for local wildlife.

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The Issue

Power supply is now a key concern for industrial developers. Supply is constrained, especially in certain areas such as west London, and connection offers can be years away. New, predominately electric developments with EV charging for cars and vans also demand more electricity, over 1.5MVA /100,000 sq ft in some cases. Electrification of the grid to meet this demand is a huge challenge and capacity issues are likely to remain problematic for some time.

Powering your site

As a result, alongside energy saving initiatives such as those described by Mia above; industrial developments are being designed with integrated energy production, for example rooftop solar and solar walls, wind turbines; as well as energy storage (i.e. batteries) to mitigate peak demand.

We are already seeing industrial clusters cooperating to introduce renewable energy and storage and expect to see more of this; there is even the potential for hydrogen plants and small scale nuclear to be introduced where energy demand is particularly high. This would go a long way to decarbonising historically extremely polluting industrial areas.

Hydrogen will have a role to play in the future energy mix, with the industrial and logistics industries prime candidates for the technology, we expect the potential for hydrogen refuelling to be factored into certain new developments.

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Conclusion

Sustainability and energy security is increasingly important to occupiers. This is causing a reduction in void periods and a rental and investment premium in those premises deemed 'green'.

The planning system is promoting sustainable development; and developers are building high quality, sustainable and adaptable buildings - suitable for future uses. Evidence from the market shows sustainable buildings perform better operationally and financially – meaning they are better for the environment and for returns. A win-win situation.

Expert authors



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