

# AtisReal

A BNP PARIBAS company 

RESEARCH



## 'True' Sustainability and the UK Property Market

SUMMARY FINDINGS OF A STUDY COMMISSIONED BY ATISREAL



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# Introduction

Sustainability is a key issue facing businesses of all types and sizes. Over recent years sustainability has become synonymous with the environment, which though critically important has created a danger that other vital components of 'true' sustainability – economic and social factors – are being overlooked.

Property is at the centre of the sustainability debate. From an environmental perspective, the RICS reports that *buildings and construction account for the largest single share in global resource use and pollution emission and among all industry sectors they also have the largest potential for cutting global greenhouse gas emissions*. From an economic and social perspective, few people remain untouched by the development, use and maintenance of property wherever they live and work, from small communities to major cities.

Looking ahead, a key issue for the property sector will be achieving a balance that addresses environmental demands while encouraging economic growth and meeting social needs of local communities. This is easier to say than do and will require close working relationships between a broad range of stakeholders, from developers, consultants and planners to NGOs, architects and local people.

In addition, all of this must be achieved against a backdrop of rapidly changing conditions in a service-based economy, where property is more vital to economic health than ever before. There is no doubt that the property industry will face a greater burden of responsibility and come under more public and government scrutiny as a result.



Key findings of the study include:

- More than one-third of respondents (39%) believe there is a great risk that an over-emphasis on environmental factors could lead to properties being built at the expense of a region's social and economic resources
- The majority of respondents (83%) believe that 'sustainability' is too strongly associated with the environment and not sufficiently with economic and social factors
- The vast majority of respondents (94%) believe that environmental issues *must* be balanced with social and economic needs of communities
- The majority of respondents (82%) also believe it is important for the property industry to recognise that sustainability includes social and economic and not just environmental resources
- Almost all respondents (96%) believe the importance of sustainability will grow in the property industry over the next five years
- Over half of respondents (54%) believe that investing in sustainable property will reduce investment risk 'somewhat/very greatly'
- 83% of respondents believe that truly sustainable property will be easier to let or sell in the general market without a cost premium while 54% believe it will be easier to let or sell in the general market even with a cost premium
- Two-thirds of respondents (67%) believe it is likely that companies will pay a premium for truly sustainable property when renting while just under half (49%) believe it is likely that companies will pay a premium when renting
- Almost two-thirds of respondents (60%) believe it is likely that demand will create a new asset class for truly sustainable property

The report addresses these and other issues raised by the research.

**ISSUES SURROUNDING SUSTAINABILITY ARE OF INCREASING IMPORTANCE IN INVESTORS' DECISION-MAKING PROCESSES. THIS WILL DEVELOP FURTHER AS MORE PEOPLE BECOME ATTUNED TO THE AGENDA, AND MARKET EFFECTS CAN BE JUDGED.**

JOHN CLAXON

DIRECTOR, BNP PARIBAS REAL ESTATE INVESTMENT MANAGEMENT

## Why did Atisreal commission the study?



As a major property consultancy closely involved with the issues surrounding sustainability, Atisreal is keenly aware of the growing perception that sustainability relates primarily to the environment, with little if any reference to the social and economic factors that truly sustainable property must also address.

This is not surprising given the publicity surrounding the environment and its potential impact on man-made global warming, which is a highly emotive issue for completely understandable reasons. But the economic and social aspects of people's lives and work are also of critical importance. They are also intrinsically linked to property investment and development decisions and it is vital that they are not overlooked

Given such rapidly growing importance of the environment and the complexity of balancing it with social and economic factors we felt it was important to determine the views of the UK property market and this research is the result.

The findings have revealed concern that social and economic factors *are* in danger of being swamped by environmental arguments.

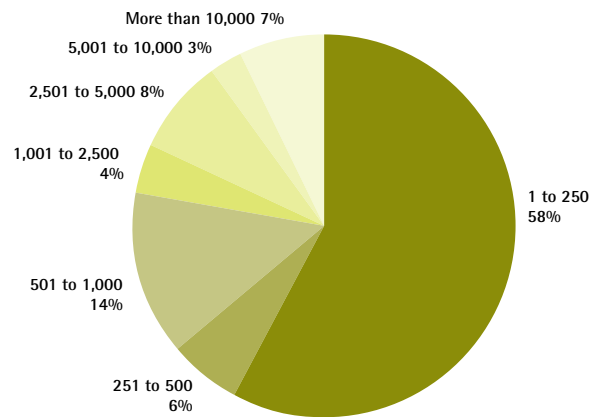
# The research sample

**SUSTAINABILITY HAS SWIFTLY BECOME A KEY CONSIDERATION FOR DEVELOPERS OF MAJOR SCHEMES AND LARGER UK OCCUPIERS. WITH SO MANY VIEWS AND TECHNICAL SOLUTIONS, IT IS OFTEN HARD TO 'SEE THE WOOD FOR THE TREES'.**

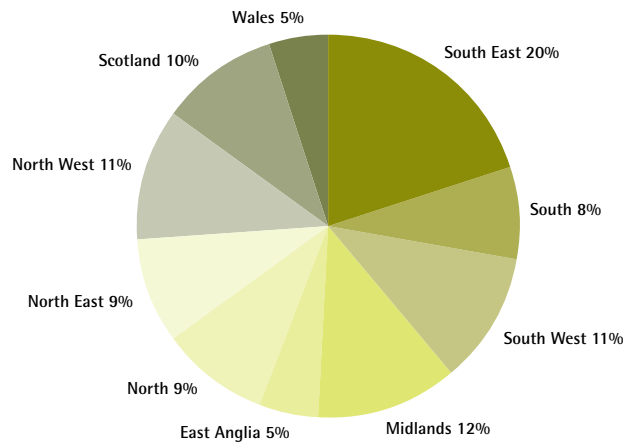
DAN BAYLEY  
HEAD OF LETTING & SALES

The Atisreal study was carried out online during November and December 2007, by Spectrum Consulting, among 125 respondents involved in the property industry.

**CHART 1**  
**SAMPLE BY SIZE OF ORGANISATION (employees)**



**SAMPLE BY REGION**



**Charts show breakdown of sample by size of organisation and geography**

# Executive summary

- More than one-third of respondents (39%) believe there is a great risk that an over-emphasis on environmental factors could lead to properties being built at the expense of a region's social and economic resources
  - The majority of respondents (83%) believe that 'sustainability' is too strongly associated with the environment and not sufficiently with economic and social factors
  - The vast majority of respondents (94%) believe that environmental issues must be balanced with social and economic needs of communities
  - The majority of respondents (82%) also believe it is important for the property industry to recognise that sustainability includes social and economic and not just environmental resources
- The above have potentially major implications for any community where development is likely to affect the local economy and creation of jobs. Obvious examples include renewable energy sources in areas of outstanding beauty, where development could affect tourism. Conversely, it is just as likely that a decision not to develop for environmental reasons could affect investment, the local economy and therefore jobs in a region
- Almost all respondents (96%) believe the importance of sustainability will grow in the property industry over the next five years
- The research provides overwhelming evidence that sustainability is not just a passing fad but will play a central role in the property sector for the foreseeable future. In other words, sustainability can add real value and any organisation that fails to take it seriously risks damaging not only its reputation but also the value of its property investment
- Over half of respondents (54%) believe that investing in sustainable property will reduce investment risk 'somewhat/very greatly'
  - 83% of respondents believe that truly sustainable property will be easier to let or sell in the general market without a cost premium while 54% believe it will be easier to let or sell in the general market even with a cost premium
  - Two-thirds of respondents (67%) believe it is likely that companies will pay a premium for truly sustainable property when renting while just under half (49%) believe it is likely that companies will pay a premium when renting
- The above strongly support the view that sustainability will offer real business benefits in the property sector, reducing risk of incurring losses in the event of a downturn while increasing margins in a strong market
- Almost two-thirds of respondents (60%) believe it is likely that demand will create a new asset class for truly sustainable property
- Sustainability is very likely to play an important role in attracting investors to the property sector as well as driving market value and rents

# The findings

## THE TRUE MEANING OF SUSTAINABILITY

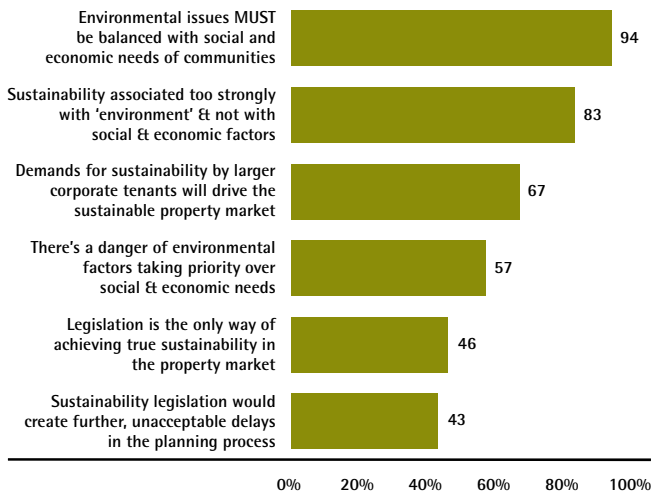
The research revealed concern among those involved with the property industry that sustainability has become too closely associated with the environment and that this could lead to a risk of social and economic factors being overlooked when investment and development decisions are being made (charts 2 and 3). It also revealed that demand from large corporates is much more likely to drive the market for sustainable property than legislation. This reduces the potential risk of new planning regulations having to be introduced to drive sustainability, which would make the planning process take longer (chart 2).

The research highlighted not only the current importance of sustainability but also the potential for its growth, with 96% of respondents believing its importance will increase over the next five years (chart 4).

**RESPONSIBLE INVESTORS WILL BE AT THE FOREFRONT OF DEVELOPING SUSTAINABLE BUILDINGS AND THIS WILL IMPACT ON THE PRICING OF THIS TYPE OF INVESTMENT. THE CHALLENGE WILL BE UNDERSTANDING AND QUANTIFYING THE IMPACT ON BOTH THE INVESTMENT AND OCCUPIER MARKETS WHEN PROVIDING ADVICE TO CLIENTS.**

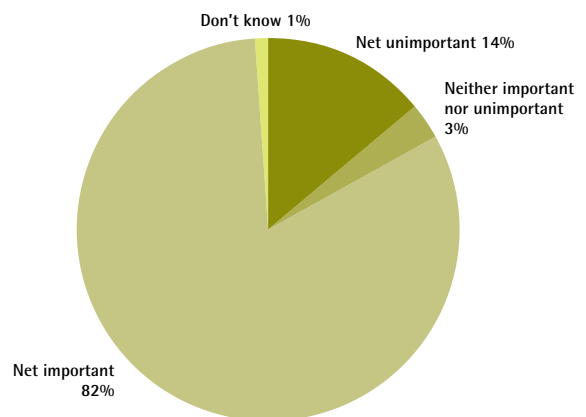
JOHN RHODES  
DIRECTOR, VALUATIONS

CHART 2



The chart shows percentage of respondents who 'agree/strongly agree' with each statement

CHART 3



Importance for the property industry to recognise that sustainability includes social and economic and not just environmental resources

### Business benefits of true sustainability

The combination of growing demand for sustainable property, especially from large corporates, and the need for organisations to achieve sustainability has significant implications for the UK property sector. As the market moves into uncertain times, truly sustainable properties that deliver social benefits and stimulate local economies while meeting environmental needs are most likely to attract large corporate tenants and purchasers than those which do not.

They are also more likely to appeal to local communities, planning authorities and other stakeholders involved in the property development and investment decision process. Human resources research, for instance, has identified an organisation's commitment to sustainability as a major issue for employees, which is just one reason why large corporates are taking the issue of sustainable property very seriously.

More than half of respondents (54%) believe that truly sustainable property will be easier to let or sell, even *with* a cost premium; and more than four out of five respondents (83%) believe truly sustainable property will be easier to let or sell *without* a cost premium (chart 5). In addition, about half of the survey respondents (49%) believe companies are likely to pay a premium for sustainable property when renting, while two-thirds (67%) believe companies are likely to pay a premium for sustainable property when purchasing (chart 6). Such benefits are likely to become even more important in the event of a downturn.

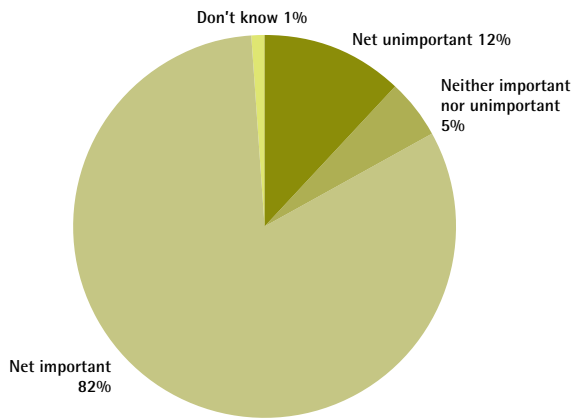
**I WOULD ARGUE THAT RATHER THAN SEEING A PREMIUM FOR SUSTAINABLE BUILDINGS, WE ARE MORE LIKELY TO SEE THESE BECOMING THE REAL TOP PRIME PRODUCT. INVESTORS AND OCCUPIERS WILL PAY THE HIGHEST RENTS/COMPETITIVE YIELDS FOR THESE WHILE THOSE BUILDINGS THAT ARE STILL OF A PRIME GRADE, BUT NOT SUSTAINABLE, COMMANDING SLIGHTLY LOWER RENTS AND RETURNS.**

JANE WINFIELD  
HEAD OF INVESTMENT

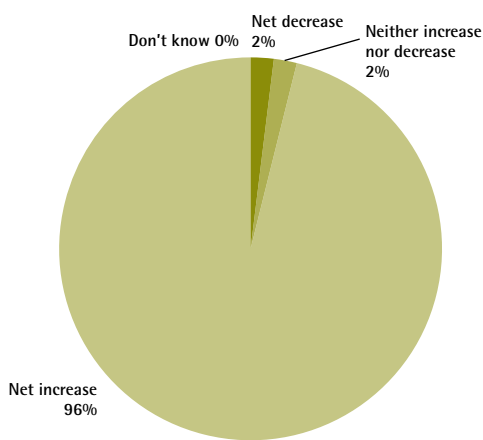
**WE ARE SEEING MORE AND MORE OCCUPIER CLIENTS REQUESTING BUILDINGS THAT TAKE SUSTAINABILITY INTO ACCOUNT. YET, AT THE MOMENT, IF A CLIENT HAS CERTAIN TECHNOLOGICAL DEMANDS AND A BUILDING DOES NOT MEET BOTH THESE AND THEIR SUSTAINABILITY REQUIREMENTS, THEY WILL GO FOR THE ONE THAT FITS TECHNOLOGICALLY.**

DAN BAYLEY  
HEAD OF LETTING & SALES

**CHART 4**



**Importance of sustainability as an issue facing the property industry at the moment**



**How the importance of sustainability will change over the next five years**

**Sustainability and risk**

The research also addressed the question of risk associated with truly sustainable property. Risk is, of course, a major factor in the property development and investment decision-making process and anything that mitigates risk is attractive to the market. While organisations are always looking to reduce risk, the desire to do so is particularly important when market conditions are uncertain.

Over half of the respondents in the Atisreal survey (54%) believe that investing in sustainable property will reduce investment risk 'greatly' (chart 7).

An obvious question that arises is whether demand is likely to create a new asset class for truly sustainable property? Evidence from the research suggests it is, with 60% of respondents believing this is likely to happen (chart 8). There are various reasons why sustainability will add considerably to a property's investment value, from the intangible benefits of, say, a large corporate being associated with such a building, to lower running costs, which are becoming far from trivial as energy prices continue to rise.

The research did not just look at financial risk but also addressed the question of balance between environmental impact and social and economic factors. More than one in three respondents (39%) believe the risk that an over-emphasis on environmental factors could lead to properties being built at the expense of a region's social and economic resources is 'great'.

The implications of such a finding are potentially far-reaching, especially for communities where the development of new properties could have a significant effect on the local economy and creation of jobs.

### Regional variations

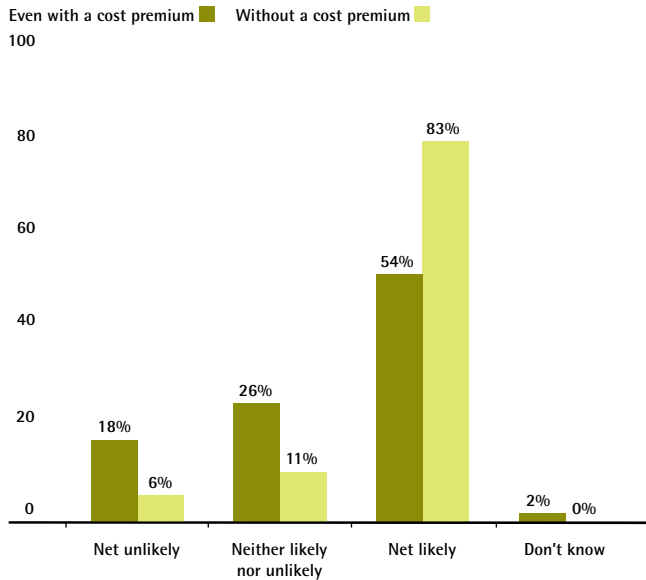
Overall, findings for the research differed relatively little between regions. One area where they did concerned the reduction of investment risk from sustainable property (chart 10).

**WE ARE CONCERNED THAT GREEN ARGUMENTS ARE IN DANGER OF OVERTHROWING SOCIAL AND ECONOMIC FACTORS IN THE PROPERTY INDUSTRY. THE ENVIRONMENT IS OBVIOUSLY CRITICAL BUT IT IS VITALLY IMPORTANT THAT ALL FACTORS ARE TAKEN INTO ACCOUNT WHEN PROPERTY INVESTMENT, OCCUPIER AND DEVELOPMENT DECISIONS ARE BEING MADE.**

TIM MALTHOUSE  
EXECUTIVE DIRECTOR

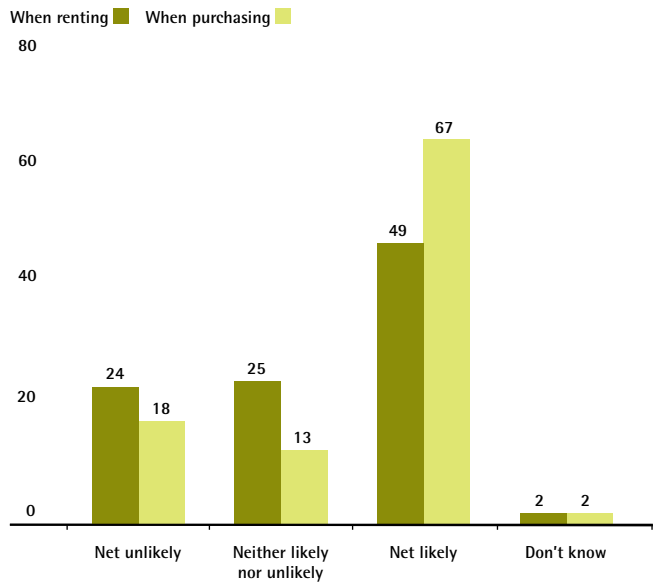


**CHART 5 (0%)**



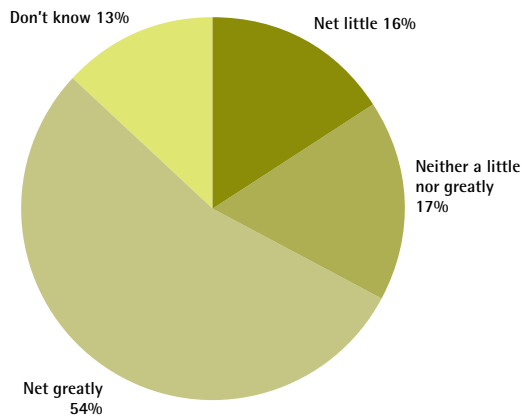
Likelihood that *truly* sustainable property will be easier to let or sell in the general market

**CHART 6 (0%)**



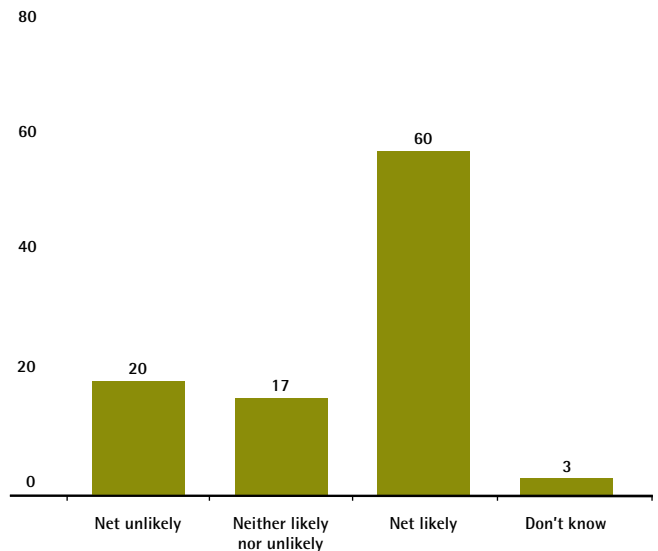
Likelihood that companies will pay a premium for *truly* sustainable property

**CHART 7**



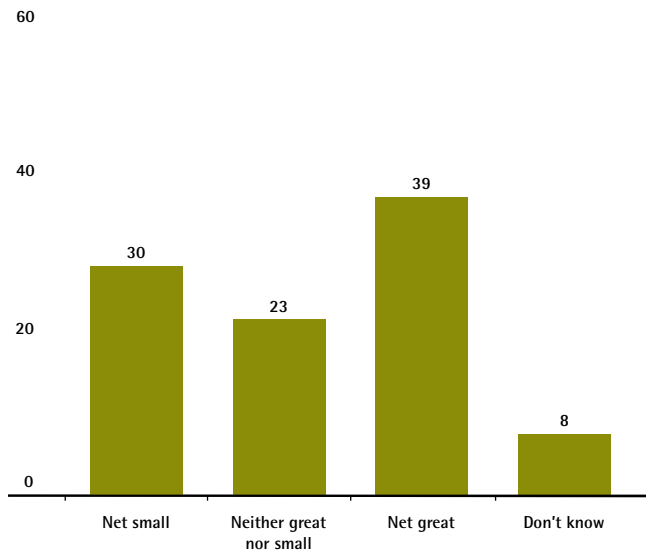
How will investing in sustainable property reduce investment risk?

**CHART 8 (0%)**



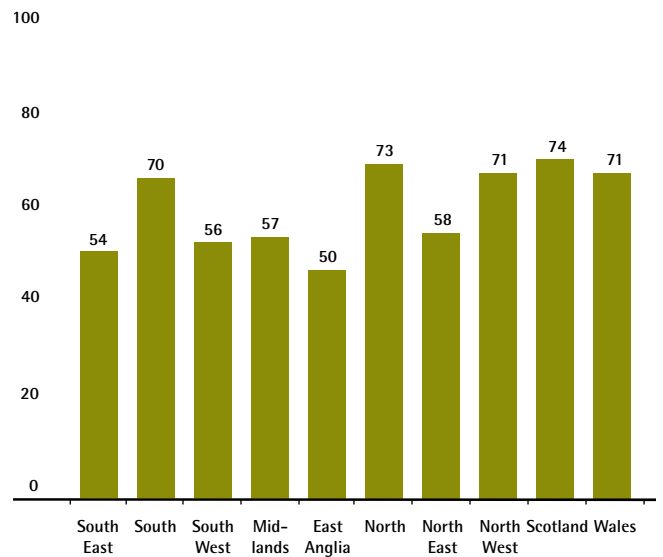
Likelihood that demand will create a new asset class for *truly* sustainable property

**CHART 9 (%)**



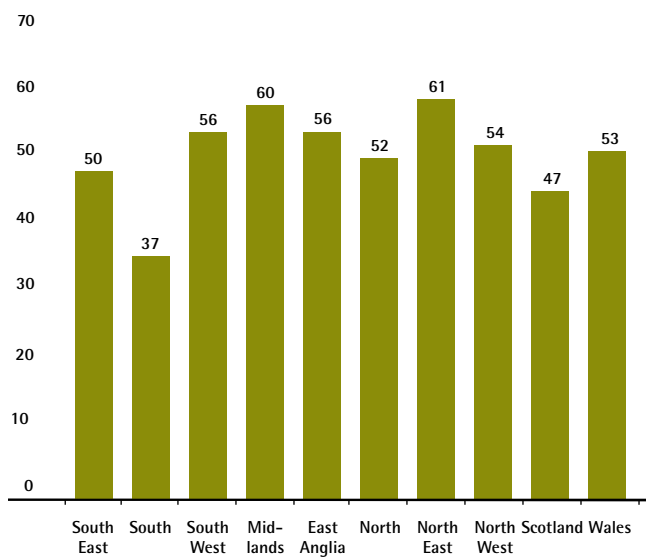
**How small or great is the risk that an over-emphasis on environmental factors could lead to properties being built at the expense of a region's social and economic resources?**

**CHART 10 (%)**



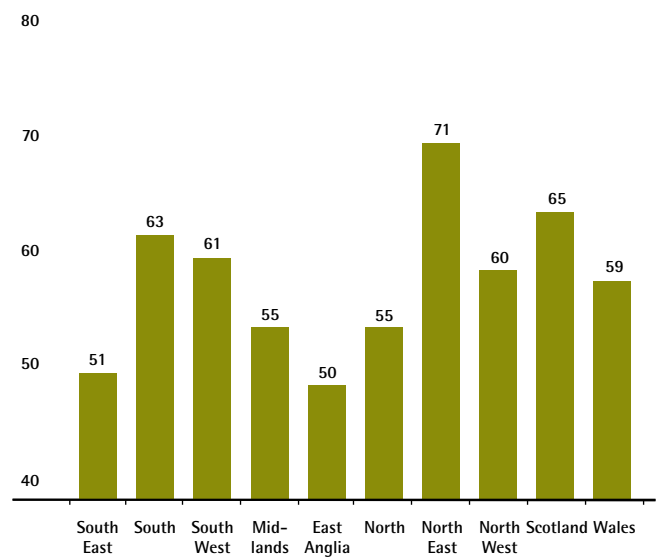
**How will investing in sustainable property reduce investment risk, where sustainability includes social and economic as well as environmental resources? Net greatly**

**CHART 11 (%)**



**There is a danger of environmental factors taking priority over social and economic needs: net agree by region**

**CHART 12 (%)**



**How likely is it that property which is truly sustainable will be easier to let or sell in the general marketplace, even WITH a cost premium? Net likely**

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makes  
a difference

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Canary



■ Atisreal ▶ Alliances

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