maples teesdale

The race to net zero carbon from a development and investment perspective

June 2021

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The second in Maples Teesdale's current series of ESG webinars explored the construction and development aspects of environmental, social and governance (ESG) issues.

Jo Preece, a construction Senior Associate at Maples Teesdale was joined by panellists Theo Michell, Principal at Bywater Properties; Joe Croft, Head of Environmental and Sustainability at Overbury and Morgan Lovell; Samantha Carlsson, Sustainability Manager at Derwent London plc; Paul Martin, Head of Development at the Firethorn Trust; and Chris Ray, Development Manager at Yoo Capital.

Below are some of the highlights from ESG – The race to net zero from a development and investment perspective and to watch a full recording please click here.

Can we capture the value of sustainability?

All panellists agreed that it was difficult to put a value on the sustainability of a development or building. This is largely due to the lack of new-build, carbon-zero buildings within the market and the comparatively few examples of buildings where the "before" value could be compared to the more sustainable "after" value once a green retrofit had been carried out.

Some of the panellists said they had seen the benefits of green buildings in the take up of leases. Lettings are agreed more quickly if properties are more environmentally friendly, reducing void periods. Chris observed that green buildings command premium rents, as tackling sustainability issues are on trend and what tenants want. Theo commented that Bywater had been extensively questioned on the green credentials of a project in Glasgow by potential tenants who would not accept a viewing of the office space until they were satisfied that it met their requirements.

Samantha noted that there was increasing interest in green development from both ends of the development cycle. Lenders are requiring borrower developers to commit to certain sustainability requirements before drawdown. Occupier employers are using environmentally-friendly office space as a talent retention tool, because ESG is a top concern for many new employees.

Joe commented that we must capture the value of sustainability. To aid in this endeavour, he has been involved in developing a carbon calculator to measure the under-studied 'embodied carbon' produced by a development. This would give a strong indication of its sustainability and make it easier to value from that perspective.

What are the differences in construction and what should developers be thinking about?

The speakers all felt that developers should be actively pushing for more green construction projects.

Theo described a Bywater award-winning, net-zero development in Vauxhall, the Paradise Scheme, built using cross-laminated timbers. He emphasised that the pivot to using timber early on had had overwhelming benefits where embodied carbon was concerned and that we need originality and bravery from developers, so more of these “first steps” are taken. He explained that insurance is currently a key challenge for innovative building materials in the UK. Timber buildings are widely insured across the rest of Europe and UK underwriters seem to be slowly accepting a more diverse range of building materials.

Joe stressed the point that, while a timber new build was far more environmentally-friendly than a traditional one, most of the time, a retrofit will be superior from an environmental perspective. He also advocated changes in how developers viewed construction materials, meaning that they should avoid certain materials (such as concrete, steel, cement and glass) and support clever designs intended to reduce the volume of materials required to complete a development while maintaining functionality. However, Joe did acknowledge that this view was from a purely environmental perspective, and he recognised the wider impact of a new build when considering the “S” of ESG.

Samantha explained that Derwent London has been gathering as much data as possible on the embodied carbon in their projects, with the intention of using that data to inform future reduction targets and strategies. She also emphasised the need to engage closely with all parties and suppliers from the offset of the tender process, rather than work in isolation. This engagement will make it much easier to decide whether the intended materials are the most eco-friendly possible and whether there are any better alternatives, including ways to overcome barriers to using innovative materials and get them accepted more widely.

Paul confirmed that the Firethorn Trust were reducing their involvement with contractors who were not engaged in ESG and that Firethorn insert “carbon benchmarks” into their contracts. The contractor is penalised for exceeding these levels but rewarded for doing better. Paul believes that the targets incentivise creativity, as he thinks there are plenty of opportunities to improve construction processes. Paul spoke about the need for “smart sustainability” and called for developers to focus on what is actually sustainable rather than just what looks good on paper or “green washing”, which is counterproductive. For example, they could put electrical vehicle (EV) chargers into 20% of a car park but currently, only 2% to 3% of them would be used. This might increase to possibly 5% over the next couple of years but by the time all those EV charges are in use, the technology will have improved and new EV chargers would be required anyway. This would mean possibly 15% of the original EV chargers could be removed having never been used but they still would have their own carbon footprint. Firethorn’s solution is to put EV chargers into only 5% of a car park but to duct the rest of the car park for future provision when necessary.

How can developments and refurbishments be dealt with to ensure ESG is at the forefront?

Chris explained that Yoo Capital is focused heavily on the "S" of ESG, meaning that when considering a project, the team ask whether the project creates societal value and is "on the right side of change", notably in relation to climate change. This approach has enabled them to engage with the communities that their developments affect the most and to progress projects that have failed under other developers. A notable example is the development of a grade 2 listed market in London which dates to the 1800s, that also acts as a community hub. Yoo is listening to that community to make sure the development directly benefits the community and consequently the footfall in the market.

Theo highlighted that a fundamental issue for the industry was the negative public perception of developers. He agreed that consultations and giving something back to local communities were important points but thought that the main issue was about control. To repair relationships with communities, developers must be seen to be relinquishing control of all aspects of a project that they can at the start of a development and letting communities lead on decisions such as tenant make up/mix and even rent levels. This is particularly true when it comes to local regeneration of town centres and high streets.

Samantha and Joe agreed with the other panellists and Samantha underlined the need to maintain relationships with local communities and to keep them involved over time, building up the trust to overcome the negative perception.

Joe added a word of caution: while most community engagement initiatives are positive, exclusively local procurement is not necessarily a good thing if it means areas work in isolation. This leaves suppliers struggling to get involved in projects outside their area and limits the spread of ideas, including green building ideas and experience.

Does net zero carbon work for one asset class more than others?

There was some acknowledgement that some asset classes face bigger challenges than others. For example, the level of restrictions on different asset classes varies. Building regulations prevent the use of certain sustainable materials in some assets, and some green building materials are insurable in some asset classes, but not in others.

However, the speakers' overriding view was that net-zero carbon must apply to all asset classes, with no exceptions. Although there is a spectrum of what can be done, depending on the asset class, one of the main points is to make sure buildings remain fit for use for as long as possible. The adaptability of the asset class will dictate whether that means a new-build or a retrofit of an existing building, but there should be no free passes for any class, whatever challenges need to be overcome. Green solutions should be shared to drive innovation and to ensure that no asset classes are left behind.

It is clear that there is a tangible commercial value in sustainability and in the broader ESG values. It may still be tricky to pin it down precisely, but they are all here to stay.