RESEARCH

SUMMER 2006

SURVEY OF PROPERTY TRENDS

'GREEN' ISSUES

CBI
THE VOICE OF BUSINESS

GVA Grimley

Introduction

In addition to our regular survey of property trends, we have questioned respondents on their attitudes towards the environmental efficiency of the property they occupy. This issue is undoubtedly becoming of increasing importance to occupiers, particularly in view of the recent escalation of energy prices and new legislation. The survey was conducted in May 2006, and takes in the views of private sector firms of all sizes, in all sectors and from all regions. We previously questioned respondents on environmental issues in our November 2004 survey.

Importance of environmental issues to accommodation strategy

Respondents were asked to evaluate the relative importance of three key property-related environmental issues to their accommodation strategy over the next five years. A simple rating system has been employed, whereby 5 represents the highest importance and 1 represents the lowest importance.

Occupying Energy Efficient Buildings – By a clear margin, this was rated by respondents as the most important consideration to their future accommodation strategy, with a mean score of 3.7 out of 5. Indeed, 64% of respondents rated this issue in the two uppermost categories of importance, and just 11% rated this within the two categories of least importance.

Occupying water-efficient buildings – This issue has undoubtedly become topical in recent months, and is regarded by respondents as the second most important influence to future accommodation strategy, with a mean rating of 3.1, suggesting a moderate level of importance. 37% of respondents placed this issue in the upper two categories of importance.

Maximising Public Transport access – The location of property in relation to transport networks is regarded with a similar degree of importance to water efficiency in influencing future accommodation strategy, with a mean rating of 3.0. However, just 28% of respondents placed it in the upper two levels of importance. Despite this finding, it should be stated that locational considerations are of particular importance in achieving an 'excellent' BREEAM rating of a property – the industry benchmark of environmental efficiency.

Perceived benefits of occupying more environmentally friendly buildings

Respondents were asked to evaluate the importance of four benefits typically associated with the occupation of environmentally efficient property. In addition to showing the results for all respondents, we have examined separately the results from respondents in the financial and businesses services (F&BS) sector - which is key to the office sector - and respondents in the manufacturing sector.

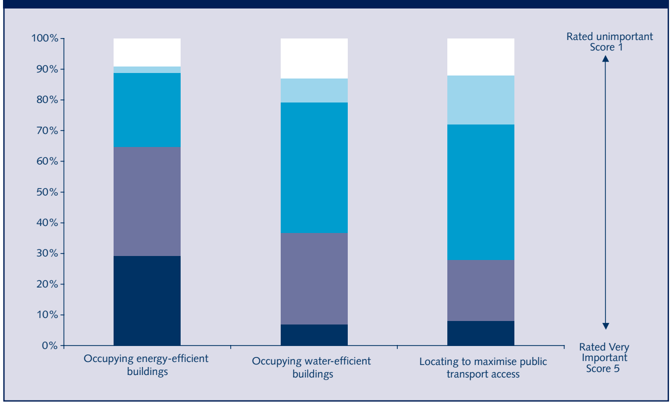
By a clear margin, **lower cost of energy and water** is perceived as the main benefit, with a very high mean rating of 4.1, indicating a significant potential benefit. The result is perhaps unsurprising, as cost issues associated with this benefit make it the most tangible of the four. However, despite the recent escalation in energy prices, such costs typically represent just a small part of overall business costs.

Greater employee satisfaction is perceived by respondents as the next most important benefit, with a mean rating of 3.7. Academic studies have shown that attributes associated with environmentally efficient property, such as natural ventilation and lighting, can boost employee satisfaction, and ultimately productivity, to an extent that far exceeds the savings derived from simply improved energy efficiency.

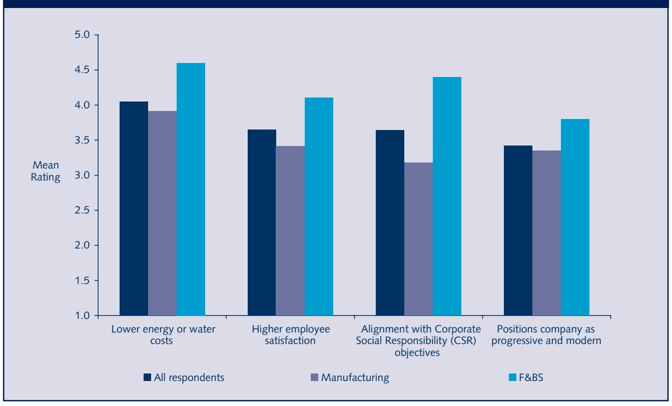
The two remaining benefits are more associated with boosting of company image. **Alignment with corporate social responsibility (CSR) objectives** and the **positioning of businesses as progressive and modern** received mean ratings of 3.6 and 3.4 respectively. Despite being regarded as the least important relative to the other benefits, the mean ratings still suggest a degree of significance.

Respondents from the financial and business services (F&BS) sector rate each of the recognised benefits of greater importance compared with respondents from the manufacturing sector. The contrast between the two sectors is most apparent regarding the benefit of 'alignment with CSR objectives'.

Importance to future accommodation strategy



Perceived benefits of environmentally efficient property



Level of concern for potential threats to business

Respondents were asked to rate their level of concern with regard to four potential threats to business associated with energy and environmental issues. Again, an average rating from one to five, where five is the most important and one is the least important, has been used to assess each factor.

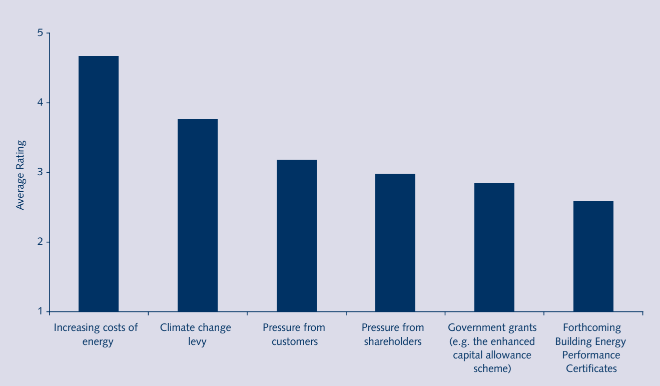
Given the recent escalation of energy prices, it is understandable that respondents are most concerned by **future increases in energy prices**, which had a mean rating of 4.6. Indeed, 91% of respondents placed this in the upper two categories of importance, indicating a very high level of concern. Respondents also have a high level of concern with regard to **reliability of energy supplies**, with a mean rating 4.0.

The **tightening of environmental regulations**, with current examples including energy performance certificates (EPCs) for buildings and the climate change levy, received a mean rating of 3.7. The lowest concern of the four was shown for the **direct effects of climate change on business practices**, with a score of 3.0, indicating nonetheless a moderate level of importance to respondents. This result may be more associated with the relative intangibility of climate change at present compared with issues such as energy prices.

What will be the key drivers of 'greener' property strategies?

As with our last survey on this issue, we asked respondents to consider which of six factors they believed would be the most significant drivers of property-related environmental change over the next five years. The results show that two factors stand out as particularly important - the increasing costs of energy and the Climate Change Levy. Again, the results are presented as an average rating.

Key drivers of property-related environmental change



Increasing energy cost is again considered by far the most important driver of 'greener' property strategies, with an average rating of 4.7, indicating a very high level of significance. Thus, whilst energy costs still represent a mere fraction of overall business costs, it is clear that their continued escalation should drive demand for more efficient property in the future.

The **Climate Change Levy** is considered the second biggest driver, with a mean score of 3.8. The tax, introduced in 2001 as a deterrent against energy wastage, is payable on the non-domestic use of gas and electricity.

Pressure from customers and shareholders in driving businesses towards more environmentally aware property strategies is considered of medium importance by respondents, with ratings of 3.2 and 3.0 respectively.

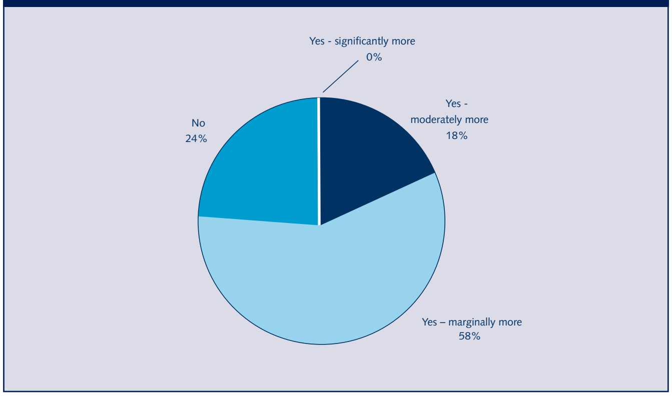
The use of **government grants and incentives** is considered of moderate importance by respondents, with a mean score of 2.8. One such example is the Enhanced Capital Allowances scheme, which allows businesses to write off the cost of investment in 'green' technologies.

The issuing of **energy performance certificates** for buildings, expected in the next two to three years, is considered the least important driver of change of the six supplied, with an average rating of 2.6. However, we believe that the prospect of energy rating certificates for all commercial buildings is likely to be one of the most significant drivers of change over the next decade, but will arguably impact more heavily on owner occupiers and investors as a building's energy performance is likely to have a bearing on property value.

Would occupiers be prepared to pay more to occupy a more environmentally friendly building?

Respondents were asked whether they would be prepared to pay more to occupy premises that are more environmentally efficient – for example in the form of higher service charges or rents. Encouragingly, over three quarters of respondents stated they were prepared to pay more, with 58% prepared to pay 'marginally' more and 18% prepared to pay 'moderately' more. However, the remaining quarter were not prepared to pay more. Furthermore, not a single respondent in the survey was prepared to pay 'significantly' more to occupy an environmentally efficient building.

Are respondents prepared to pay more to occupy a more environmentally friendly building?

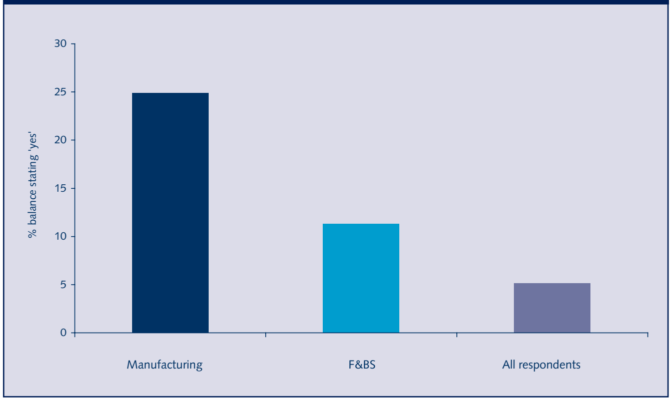


Employing energy costs and efficiency in lease negotiation strategies

Respondents were asked whether or not they were likely to use energy costs and the efficiency of the buildings they occupy as part of their lease negotiation strategy. This question was only applicable to leasehold occupiers in the survey, accounting for 78% of total respondents.

We have analysed the results in terms of the balance between those respondents stating 'yes' or 'no' and have also looked at the response of particular sectoral groups, to indicate their sensitivity to environmental considerations with their property. The results show that, overall, a marginally positive balance of 5% stated that they would indeed use energy and efficiency considerations in their subsequent lease negotiation strategies.

Are you likely to use energy costs/efficiency as part of rent or lease negotiation?



A greater than average positive balance was noted among Financial and Business Services (FBS) and manufacturing respondents, with a positive balance of 11% and 25% respectively. In contrast, the respondents from all other standard sectors, such as retail, distribution and transport produced negative balances.

Conclusion

The results reveal that respondents are attaching great significance to the energy and environmental efficiency of their property, and this appears to have increased further in importance since our previous survey 18 months ago. Occupiers are not only becoming more aware of the need to consider the environmental efficiency of their property from a cost perspective, but are also recognising other benefits such as raised staff satisfaction and improved company image. However, despite the clear significance attached to such issues, respondents are, on balance, only prepared to pay marginally more to occupy an environmentally efficient property.

Over the next decade, we believe that the introduction of energy performance certificates, and possible continued hikes in energy costs will increase occupiers' knowledge of, and demand for, more environmentally efficient property.

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