



FIGHTING *obsolescence*

THE IMPORTANCE OF SUSTAINABILITY ACROSS THE COMMERCIAL AND INDUSTRIAL PROPERTY MARKET IS ACCELERATING AS CALLS FOR DECARBONISATION BECOME LOUDER AND A BUILDING'S "WHOLE-OF-LIFE" INPUT/OUTPUT COMES UNDER SCRUTINY.

WITH AROUND 40 PERCENT OF GLOBAL carbon emissions deemed to come from the built environment, the ball is firmly in the commercial and industrial property sector's court to address pathways to decarbonisation.

Environmental, social and governance (ESG) factors are now a key consideration in most major commercial real estate decisions in Europe, and while New Zealand is lagging somewhat, ESG is increasingly on investor, stakeholder and occupier radars here.

Bayleys' global real estate partner Knight Frank found that four out of five ultra-high-net-worth clients were interested in ESG-related property investment, with ESG perceived as

an opportunity to create and preserve wealth by more than half of respondents surveyed.

Last year, Knight Frank's capital markets research team found that a definitive "green premium" exists in key global marketplaces, with rental and sales value uplift for buildings with sustainability accreditations compared with non-rated buildings.

This premium can reach 12.3 percent for prime central London office rents for the very highest green-rated buildings, while NABERS-rated buildings in Australia are selling for up to 18 percent higher on average than an equivalent "brown" building.

Meanwhile, the ferocity of Cyclone

Gabrielle and other recent floods experienced across the country demonstrates the fragility of our infrastructure, and calls into question asset resilience.

Total Property talked to industry leaders about the rise of ESG in the commercial and industrial space, and the implications for owners, tenants and property stakeholders.

UPSKILLING IN THE GREEN SPACE

Bayleys national director of property management services, Stuart Bent and Bayleys national head of retail property management, Michael Gillon have completed study through the University of Cambridge's Institute for

sustainability space and particularly, ways to address the disconnect between talk and application of ESG principles.

"I encourage our clients not to let the ambition of high green certification ratings and market recognition distract them from doing the basics well, but to identify challenges and act to ensure future capital value and returns are protected.

"While zero carbon is aspirational for larger commercial property owners, and often a pre-requisite target for listed property companies to meet investor expectations/conditions, it's not the current goal of many private owners."

Active management of large commercial portfolios like Centuria and the Harbour Grounds precinct (which includes Bayleys' head office), facilitating numerous Green Building and NABERSNZ ratings, and applying the more complex international GRESB sustainability benchmarking index, has broadened Bayleys' capability.

"Additionally, our new building consultancy team led by David Guy assists with specific projects required to create a more resilient or efficient performing asset, such as sub-metering of buildings to better collect energy data," explains Bent.

"Collecting data and tracking consumption trends across the key utilities of electricity, water and waste forms the foundation for any future certification or rating of an asset's efficiency performance, such as a NABERSNZ energy rating.

"We have systems to facilitate this, plus partnerships with organisations specialising in asset performance and life cycle planning that includes

key sustainability-related capital expenditure."

Given climate change narratives, and an uptick in environmental risk assessments within purchaser due diligence, Bent says building owners must extend their identification of risk to sustainability-related resilience to ensure the asset remains fit for purpose, and to protect current and future capital value.

"Despite global evidence of rental green premiums aligned to higher environmentally performing assets, large sectors of the ownership market in New Zealand are dragging their heels with some scepticism evident.

"It will really hit home when occupiers acting on instruction from offshore stakeholders won't renew leases if asset owners cannot demonstrate a commitment to green-up assets to align with company ESG policies."

Bayleys' property services team has facilitated NABERSNZ energy ratings for the three largest office complexes under its management for the last three years.

"We support our clients to achieve the required targets many listed property owners demand for investment, as well as preparing for the fast-approaching mandatory disclosure of climate-related risk.

"The Task Force on Climate-Related Financial Disclosure (TCFD) is designed to improve and increase reporting of climate-related financial information, so to seriously prepare for future climate-related challenges, a more detailed life cycle asset plan will be required."



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STUART BENT, BAYLEYS,
NATIONAL DIRECTOR PROPERTY
MANAGEMENT SERVICES

Sustainability Leadership programme to better assist clients with ESG navigation and implementation.

It's opened Bent's eyes further to the work that needs to be done in the





“BUILDING OWNERS WITH A DEFENSIVE DECARBONISATION STRATEGY HAVE A HUGE OPPORTUNISTIC ADVANTAGE IN THE MARKET.”

JENINE CRANSTON, KNIGHT FRANK AUSTRALIA, ESG LEAD

HARSH REALITIES

Jenine Cranston, Knight Frank Australia’s ESG lead, says there is value in demystifying the technical elements of sustainability to ensure its clients are clear on the why, what and how of investment in ESG strategies.

“Bluntly, every asset owner should know how much carbon its buildings are chugging out operationally and ESG should be fully integrated into any asset strategy.

“Any building owner in Australia looking to attract northern hemisphere capital needs a road map to zero carbon as investors won’t look at assets without an identified decarbonisation strategy, and tenants with identified ESG commitments want to occupy an asset that mirrors their objectives.”

Cranston said it has clients in Australia at every point of the decarbonisation continuum.

“Building owners with a defensive decarbonisation strategy have a huge opportunistic advantage in the market – both from an occupier and sales perspective,” she explains.

“Brand new stock is comparatively easy – the challenge lies in how we can take existing buildings to new sustainability thresholds.

“We’ve worked with a local client to achieve Australia’s first carbon-neutral portfolio of existing stock and given that 55 percent of Australia’s office assets are deemed aging stock, there’s huge opportunity for sure.”

Aging stock is a world-wide issue and in Europe, is leading to stranded assets – property that fails to meet occupier, investor and/or legislative standards and hence, is unsaleable.

“Tightening sustainability expectations from stakeholders could significantly shorten the useful life of relatively new buildings and a completely stranded asset will have no value,” says Cranston, referencing an A-grade building in

London built in 2016, yet likely to be categorised as “stranded” by 2024.

“We’re not seeing this terminology in New Zealand or Australia yet, but potentially, assets without a decarbonisation road map could be at risk of stranding very quickly.

“This creates opportunity in the market for smart groups with the ability and capacity to identify a pathway to decarbonisation.”

Stressing that building owners without a 10-year asset sustainability plan will struggle to get approved lending, and with an asset’s ability to tolerate changing weather dynamics being thrown into sharp relief, Cranston says technology is a saviour.

“Buildings are becoming ‘one big internet of things’ and with everything able to be digitally metered, building owners can employ defensive strategies to protect the value of their assets now and into the future.”

DOLLARS AND SENSE

General manager of BNZ’s property finance unit, Phil Bennett has been at the coalface of commercial lending for four decades and oversees a commercial property portfolio worth \$10 billion for the bank.

The challenge his team faces is embedding climate risk into the different stages of the credit lifecycle and aligning lending and investment portfolios with pathways to net zero by 2050.

Bennett says banks have signed up to government and reserve bank targets to reduce carbon per dollar of lending in the commercial, industrial and agri space, and this has prompted sustainability-linked loans with discounted interest rates where a customer meets identified and quantifiable sustainability goals.

“In the commercial and industrial space a discount to base lending rate of maybe 10 to 20 basis points can apply to accredited green buildings – not

a huge discount, but relevant in an inflationary environment.

“It’s definitely easier to sell or raise capital against a green portfolio and we’re focusing on premium A-grade office and industrial assets in growing our books, with around 75 percent of BNZ’s commercial portfolio comprising premium grade buildings.

“Each bank around New Zealand will have a different mix, and aging stock varies city by city, but we aim to keep our portfolio at the sharper end of the book.”

One of the simplest ways for a company to move on its ESG goals is to rent space in a green building and BNZ is leading by example with new headquarters for its 1,500 Wellington staff under construction at 1 Whitmore Street in the CBD.

The building is designed to achieve a New Zealand Green Building Council 5-Green Star rating and is considered one of the most seismically advanced developments in the country.



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PHIL BENNETT, BNZ, GENERAL MANAGER PROPERTY FINANCE UNIT



“WHILE WE HAVE A LONG WAY TO GO IN NEW ZEALAND ON THE SUSTAINABILITY FRONT, WE’RE GETTING BETTER.”

LIZ RICHARDSON, BECA, TECHNICAL DIRECTOR AND MANAGER AUCKLAND BUILDING STRUCTURES TEAM

EXISTING BUILDING CHALLENGES

Liz Richardson is technical director and manager of the Auckland building structures team for Beca, New Zealand’s biggest engineering and consulting firm.

A structural engineer with broad global experience across the UK and Hong Kong commercial markets, Richardson has a strong interest in how to move existing buildings towards decarbonisation and ESG goals.

“While there’s no substitute for good design both externally and internally, we can target efficiencies of building service systems, identify zoned spaces for efficient cooling and heating, provide passive systems where possible, improve resilience by enhancing seismic bracing and provide end-of-trip facilities for low-carbon modes of transport.

“In Europe, many countries have enforceable obligations on energy use and while we have a long way to go in New Zealand on the sustainability front, we’re getting better.”

Addressing aging or potentially obsolete buildings is important and Richardson uses an Auckland example to demonstrate how front-footing a building’s lifespan and sustainable credentials can deliver world-class outcomes.

“The University of Auckland’s Social Sciences building is a textbook example of an ‘adaptive reuse’ project that sets new benchmarks for low-carbon design, sustainability, and energy efficiency,” she says.

Taken back to its base structure and reformulated, the building was awarded 93 points by the New Zealand Green Building Council, attaining the country’s first 6 Green Star design rating and putting the building in the “world leadership” category.

Richardson warns that a pressing issue now for New Zealand commercial and industrial property lies in addressing and actioning remedial strengthening



pathways for identified earthquake prone buildings as compliance deadlines loom.

“Under the Building (Earthquake-prone Buildings) Amendment Act 2016, and post-Christchurch and Wellington earthquake events, timeframes for strengthening or demolition were variously set at 15, 25 or 35 years dependent on seismic risk and location.

“We may be kicking the can down the road at the moment, but the time of reckoning is coming as based on current trends, there could be 3,000 buildings due for strengthening by 2035 and potentially, not enough contractors to do the work, leading to uninhabitable buildings.”

INFRASTRUCTURE RESILIENCE

New Zealand joins the world on a decarbonisation journey that’s only going to accelerate says Chris Bishop, National’s spokesperson for infrastructure, housing, Resource Management Act (RMA) reform and urban development.

“The government has signed up to a net zero carbon by 2050 target initiative and this is a bi-partisan commitment effectively baked into New Zealand law.

“The major mechanism to drive emissions reduction is the Emissions Trading Scheme (ETS) which puts a price on carbon output and encourages the adoption of clean energy initiatives.

“As the price of carbon will fluctuate and rise over time, people will make fundamental economic decisions based on this.”

Speaking to *Total Property* before the recent floods and catastrophic Cyclone Gabrielle event, Bishop said parts of New Zealand are very vulnerable to climate change and collectively, we don’t really know what that looks like yet.

“We’ve arguably built in parts of Auckland where we shouldn’t have and the recent flood events spot-lit that problem.

“Our national infrastructural resilience has been thrown into stark



“THERE’S AN ESTIMATED \$150-250 BILLION DEFICIT IN INFRASTRUCTURAL INVESTMENT.”

CHRIS BISHOP, NATIONAL PARTY, SPOKESPERSON FOR INFRASTRUCTURE, HOUSING, RMA REFORM AND URBAN DEVELOPMENT.

relief and there’s no question we have underinvested in infrastructure – dating back to the 1990s when capital expenditure was cut.

“Looking at the potholes and the compromised State Highway network, there’s an estimated \$150-250 billion deficit in infrastructural investment.

“That’s huge dollars and the Crown can’t do it alone – we’ll need significant private investment to help.”

Cyclone Gabrielle’s fury has only heightened these concerns and with the environment and the economy inextricably linked, RMA legislation reforms look set to be a political hot potato in the run-up to the general election.

Government intends reforming the Resource Management Act 1991 (RMA) through three bills, two of which are now before Parliament at the select committee stage – the Natural and Built Environment Bill and the Spatial Planning Bill.

Bishop says how we plan our cities is pivotal to any sustainability conversation.

“Vulnerability to climate change is a reality and the challenge lies in how to adapt or implement managed retreat.”