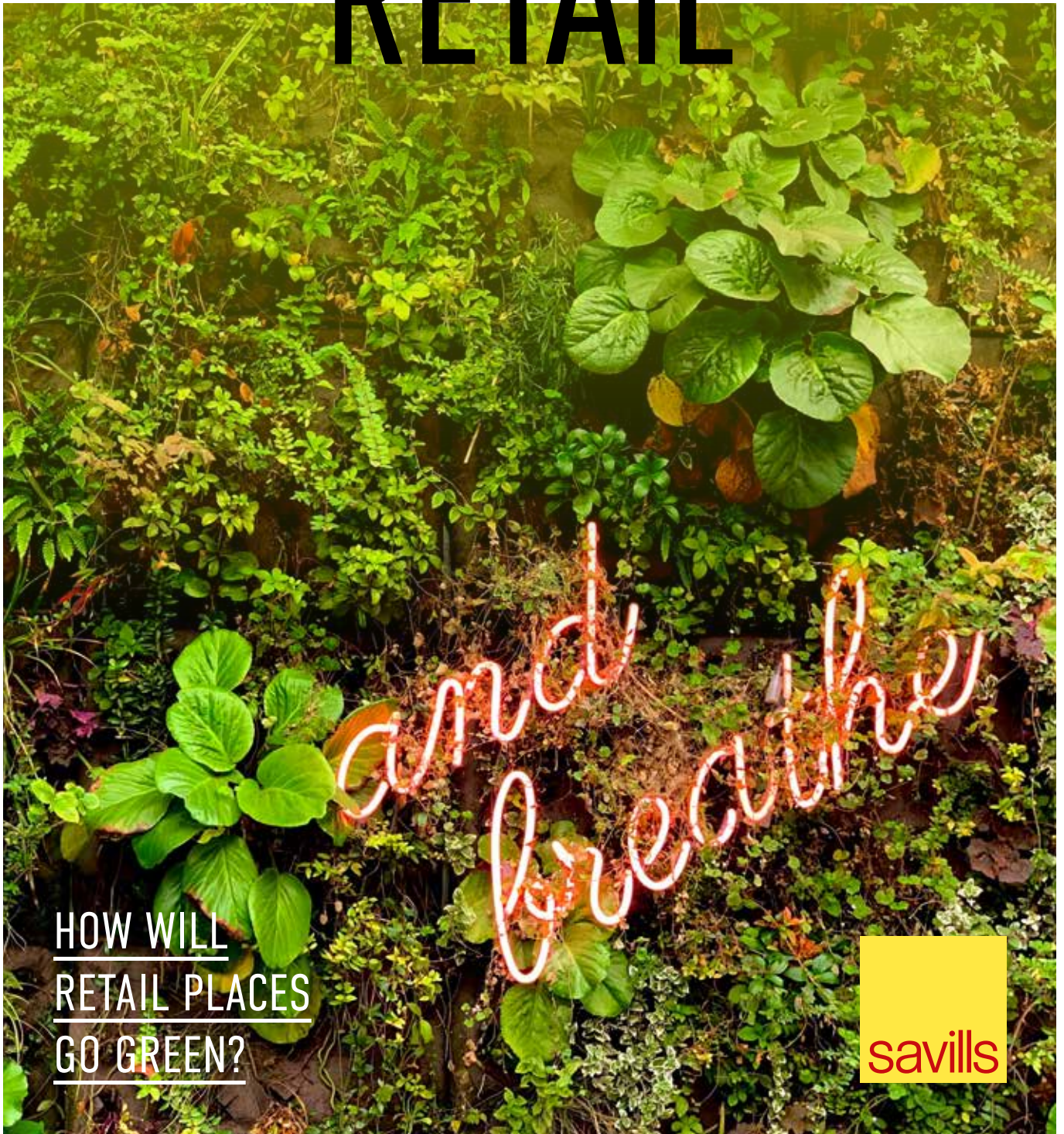


# RE:IMAGINING RETAIL



HOW WILL  
RETAIL PLACES  
GO GREEN?





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# FOREWORD



## FOREWORD BY:

**Tom Whittington**  
Director, Savills  
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Research

**Mark Garmon Jones**  
Head of Savills  
Retail Investment  
& Repurposing

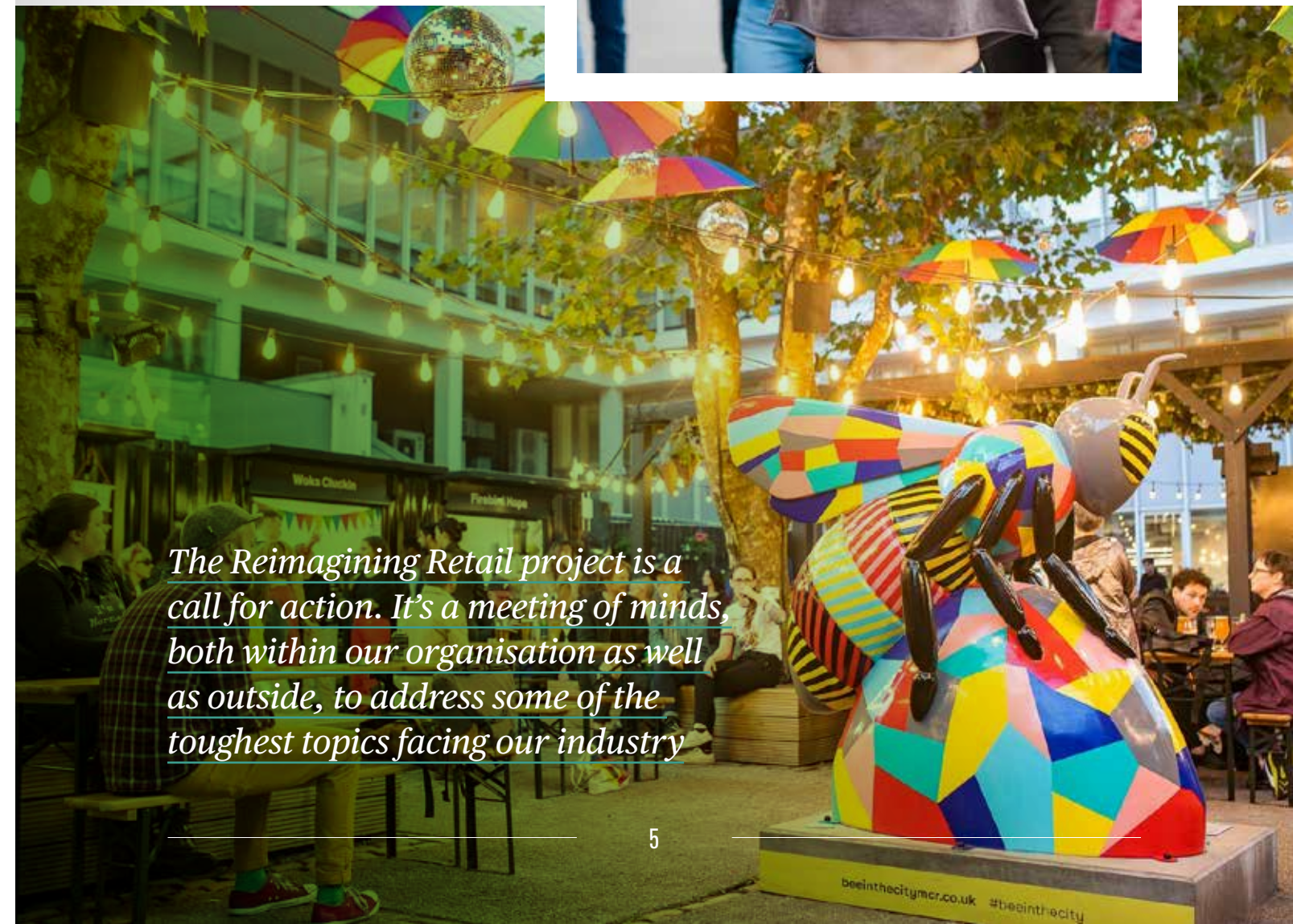
When we embarked on our first publication in 2019, our aim was to raise awareness of the issues in the retail sector that showed the need to repurpose a considerable proportion of shops across the UK and Europe. Retail then, as it does now, needs to be reimagined. Sustained challenges in occupation have left many of our towns and city centres with redundant spaces, while other areas have thrived or adapted. We wanted to see if we could bottle the magic ingredient and apply it elsewhere.

The next few years will see major repurposing projects really starting to come out of the ground, given the time it takes for development to navigate the planning process and the disruption from Covid. However, before repurposing of retail had even begun in earnest, the story quickly evolved to thinking more broadly about how we can solve the wider economic challenges within town and city centres, for which retail has been core use for the last 50 years. As such, this has been the theme of **Reimagining Retail #2**, published in 2021 – a deep dive into the future of economic sustainability of retail places. The same solutions are not applicable in all places, but thinking about a broader church of mixed property uses that meet the needs of communities and stakeholders would build resilience and support recovery.

Now, with our third publication in the series, we tackle the many facets and challenges related to **environmental sustainability**. What will retail real estate have to do to be truly green, reach net zero, be socially conscious and to thrive once more? Many parties – whether investors, developers, landlords or retailers – have been devoting increasing time to the environment, social and governance (ESG) agenda, and particularly that of decarbonisation, but these discussions are often fragmented. We wanted to bring them together.

In doing so we have discovered that economic and environmental sustainability are not two different challenges, but two sides of the same coin. In the fight to reduce our impact on the planet, it will be impossible to untangle the two. In fact, there is good reason to believe that leading real estate through a green lens will in turn lead to greater economic prosperity and better financial returns. This may come at a cost now, but inaction now will give rise to a greater financial and environmental burden in the future.

The **Reimagining Retail** project is a call for action. It's a meeting of minds, both within our organisation as well as outside, to address some of the toughest topics facing our industry. These issues touch all of us and is a truly cross-sector property industry conundrum, whether or not you work directly with retail or town centres. We're all on a journey, with ESG and decarbonisation the hot topics of every conversation and for which no one can claim to hold all the answers. Sharing experiences and learnings from across the property spectrum therefore has the best chance to produce innovative solutions and steer us toward a net-zero and financially secure future. We hope you find the content in these pages both inspiring and engaging and please get in touch if you would like to get involved.



*The Reimagining Retail project is a call for action. It's a meeting of minds, both within our organisation as well as outside, to address some of the toughest topics facing our industry*



## KEY EMERGING THEMES:

### DRIVERS FOR CHANGE

ESG, consumers and policy are all fundamental drivers of the retail property industry's future direction towards net-zero. Arguably, policy doesn't go far enough, and consumers may not follow up their stated opinions with their purchase behaviour. This leaves the private sector leading the way where ESG objectives are embedded in the organisation.

Where policy is driving change is with regards to the energy performance certificates (EPC) regulations that are urgently bringing into focus the need to improve the energy efficiency of all commercial buildings. A staggering 83% of retail stock nationally will need to be improved by 2030, or we lose a considerable proportion of our shops.

Realistically it won't be able to play out like this, not least because viability is a major sticking point and the consequence of forcing all of our shops to close would be a political disaster. Yet it does put into focus one aspect that is going to rapidly impact the property sector in the next few years. There is a key question as to whether the focus on EPCs is diverting attention away from other existing forms of ESG certification that could provide more effective solutions and benefits in the short term.

### OPERATIONAL CARBON

Reducing the energy we use has to be the number one goal. A 20% reduction in energy is equivalent to a 5% increase in revenue, so there is a clear financial incentive as well as an environmental one. Cleaner energy sourcing or production can make a significant difference, with many retail buildings being well suited to solar generation. Nationally, the retail property sector has the potential to farm energy equivalent to two Hinkley-C nuclear power stations each year.

The debate on the financial versus environmental case for rebuilding or retrofitting is complex, with good cases for and against both considerations. Rebuilding has proven increasingly controversial in some locations and increases to construction costs have certainly pulled things in favour of reuse, which reduces the embodied carbon. However, refits are not without their own impact, particularly around waste, while repurposing assets can provide an ideal opportunity to make improvements that reduce impact, improve EPCs and make operational efficiencies.

### OCCUPATIONAL CARBON

Green leases are becoming standard in the largest retail destinations and are used by all major landlords where possible, but agreements outside of strong trading environments with weaker tenant demand are much less prevalent. This isn't tenant apathy – many retailers are going to great lengths to fix their own operational footprints.

Landlords and tenants may have the same commitments, but often different priorities. 80% of a landlord's emissions are associated with tenant activity, but for many retailers their shops account for less than 3% of their emissions, with the rest being produced elsewhere within their supply chain. As a result, it's not surprising if a retailer's intention to clean up their own carbon footprint is not solely focused on making improvements to the shops they lease.

### GREENER DEVELOPMENT & INVESTMENT

The circular economy is one of the most important emerging principals in how we design the built environment. Buildings need to be flexible and agile for reuse and alternative uses, as well as using construction methods that lower the embodied carbon and extend the building's life. Repurposing retail space provides the ideal opportunity to make improvements to both.

Retail and town centre assets lend themselves particularly well to the benefits of enhancing social value, another fundamental aspect of ESG and one that has tangible positive impact in driving consumer loyalty. Social and environmental initiatives are not disparate functions and are most powerful when developed in alliance.

Furthermore, leading our assets and developments with an environmental lens has the best chance of driving these places forwards economically. There is a clear correlation between economically and environmentally challenged places when it comes to investment values, so while the jury is still out on whether there is a direct green premium for the most sustainably focused retail schemes, there remains a significant risk of devaluation from inaction.

# RE:

## RE:IMAGINE

## RE:PURPOSE

## RE:USE

## RE:GENERATE

## RE:DESIGN

## RE:CREATE

## RE:CURATE

## RE:ENERGISE

## RE:DEVELOP

## RE:BUILD

## RE:PLACE

## RE:THINK

## RE:CYCLE

## RE:ENGAGE



# CHAPTER 1

## DRIVERS FOR CHANGE

UNDERSTANDING THE  
SCALE OF THE CHALLENGE  
AND HOW TO RESPOND





# WHY RETAIL PROPERTY MATTERS



BY:

**Bruce Patrick**  
Director,  
Savills  
Development

## THE RELATIONSHIP BETWEEN REPURPOSING AND DECARBONISATION WITHIN DEVELOPMENT

### A NEW VISION FOR RETAIL PLACES

I spent 15 years as an investment surveyor before making the move into development. I wanted to not only try and solve the funding challenge in Scotland, but also help build the next generation of best-in-class buildings. Since then, my eyes have opened to a new way of visualising the built environment; where there are more interesting places that are in tune with the needs or idiosyncrasies of a specific location, which have the right blend of mixed uses to address occupational demand and provide social cohesion.

Each year, real estate is responsible for 40% of global emissions and for 40% of natural resource use. At the typical rate of redevelopment, 80% of buildings standing today will be in use in 50 years. Therefore, efforts to create sustainable real estate can't solely focus on the design and construction of new buildings but must also consider the sustainable long-term use of existing assets and, fundamentally, the way we build them. Cement makes up 4.5% of the world's emissions, with an average

tonne of concrete emitting an equivalent mass of CO<sub>2</sub> (1t CO<sub>2</sub>e). The same weight of steel emits an average of 1.8 tCO<sub>2</sub><sup>1</sup>. As of 2020, human-made materials exceed the total biomass of the natural world<sup>2</sup>. Property development needs to be part of the solution not the problem.

The rapid evolution of ESG and its impact on government legislation, energy policy, corporate activity and investment decision-making, particularly post-COP26, means that every working day we question where property developments fit within a carbon-zero future. Retail places and town centres have their own significant role. The Building Energy Efficiency Survey (BEES) reports on non-domestic building stock, from which the retail industry has the highest proportion of emissions in the country; directly consuming 7,330 GWh per year (England and Wales). That's 17% of the total and doesn't even include additional emissions related to retail storage and offices.

<sup>1</sup>How Bad Are Bananas? - The Carbon Footprint of Everything

<sup>2</sup>[www.nature.com/articles/s41586-020-3010-5](https://www.nature.com/articles/s41586-020-3010-5)

<sup>3</sup>[www.savills.co.uk/reimaginingretail](https://www.savills.co.uk/reimaginingretail) Issue#1

<sup>4</sup>See EPC Cliff Edge article p.18

### AIM HIGH, STRIKE LOW

Meanwhile, we're seeing an unprecedented array of headwinds affecting the retail sector that are pulling on the need to repurpose and reposition high streets and shopping centres. The pandemic has hastened the demise of centres that are one-dimensional, don't offer anything to the local consumer, or aren't destinations that provide experiences. So, can we simultaneously solve challenges within property demand and pursue a carbon-zero future? I believe it is fundamental and our responsibility to do so.

The need to revitalise our towns and city centres and other struggling retail places and the journey towards reduced environmental impact are not separate agendas. In 2021, we reported a quarter of retail in the UK risks becoming redundant by the end of the decade<sup>3</sup>. Since then it has become abundantly clear that the majority of retail property also fails to meet the 2030 MEES emissions targets<sup>4</sup>. More often than not, locations with the lowest occupational demand will be the most difficult to decarbonise.

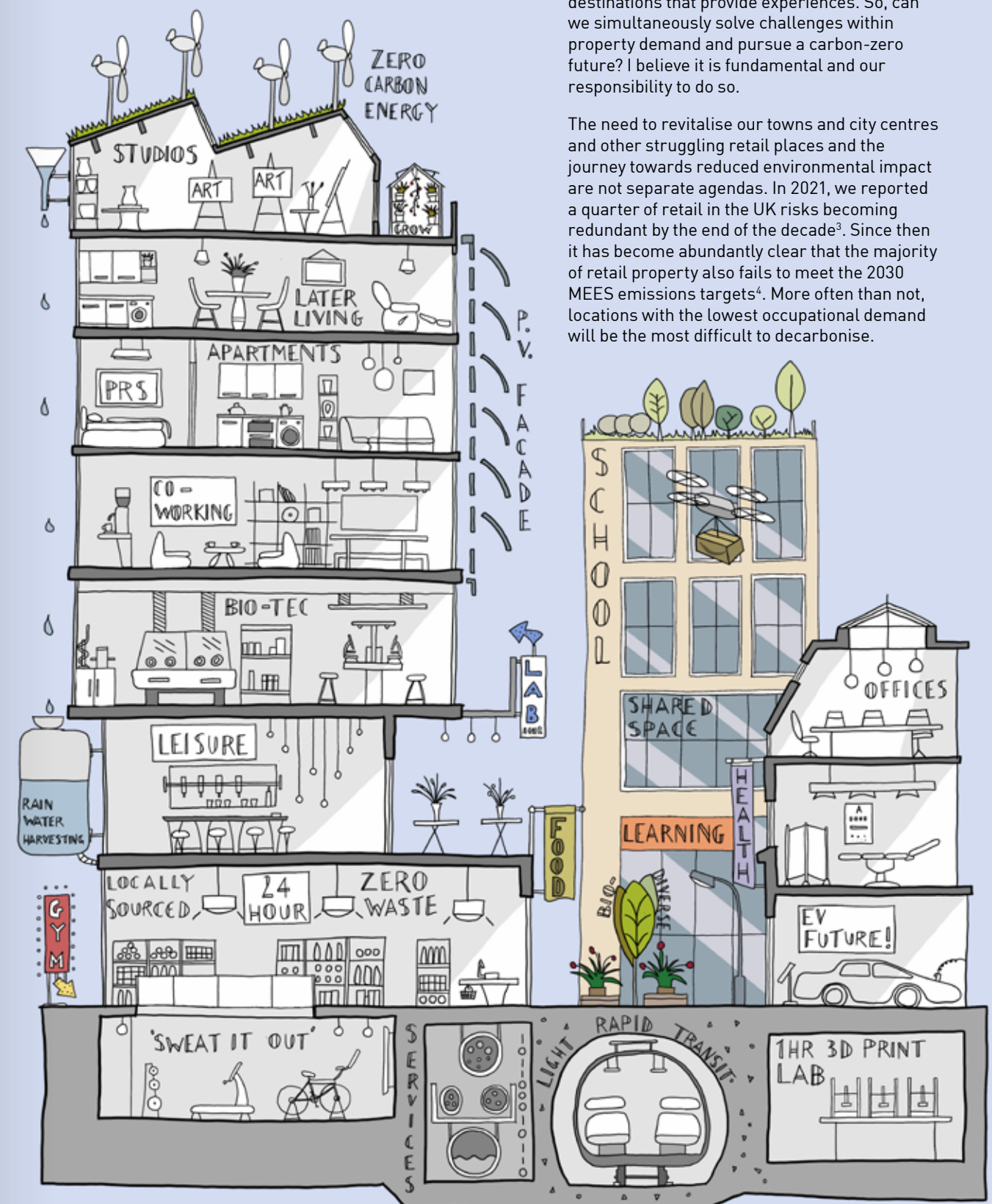


Image credit: Mark Slocombe, Atkins Architecture



### REPURPOSING OUR PRIORITIES

2023 will be the year that major repurposing projects really start to come out of the ground, given the time it takes for development and the disruption from Covid. We're already seeing department stores reborn as education, health facilities, and life sciences, or reconfigured for new retail or leisure concepts. Savills has been discussing the benefits of repurposing retail for some time<sup>5</sup>, but what does it mean to me as a development adviser?

We're actively involved with town and shopping centre projects in all kinds of places; whether major premier city centres, or smaller local schemes in challenged less-affluent town centres. The solutions are invariably different and take time, but the processes often similar; requiring a holistic view to consider the unique characteristics and economic drivers of that location and what that means for demand for space and its typology going forwards. It's about thinking outside the box and being brave to the possibilities. It's about reimagining the real function of consumer ecosystems, which will often mean not thinking about retail places as retail only places.

More and more investors are looking to change income profiles from solely retail tenants to something much more resilient, sustainable, and with better potential for growth. This means creating a blend of different uses that meet the specific needs of that place.

There are swathes of town centres that need repurposing. Yet, the real issue is that the really challenged locations often have too many fragmented units that, firstly, can't be converted economically and, secondly, are also no longer fit for purpose as retail. In some cases, the shopping centre is the town centre, so it's not just a single asset or use that's impacted by terminal decline. So, what should they be? One of the joys of my job is in digging into the fundamentals of a place and asking just that: who is it there to serve?



*“Real estate is responsible for 40% of global emissions and for 40% of natural resource use. As of 2020, human-made materials exceed the total biomass of the natural world. Property development needs to be part of the solution not the problem.”*

### FUNCTION FINDING

Our role starts with place finding, well before we can consider place making. In many cases there was a functioning town centre with a multi-faceted mix of uses prior to the arrival of the shopping centre. Rightsizing the retail provision is key but needs to be done tactically and strategically. We must focus on creating destination and experience, attracting more than just the shopper, and working with councils to create civic and community spaces.

Through our collaborative work with investors, universities and local authorities, we're seeing a multitude of solutions. In Edinburgh, the Ocean Terminal shopping centre is being repurposed with a new residential component; in Glasgow, the James McCune Smith Building is being reimagined as a hub for hybrid teaching, learning, community and study; and, in Aberdeen, the former BHS is being converted into a market with blended dining and events space. Each case brings in new customers and stewardship for that space, which can have transformational benefits for the adjacent area.

However, while improving a place's economic and social prospects is one objective, there's an opportunity to kill two birds with one stone when we undertake redevelopment. Repurposing and repositioning projects also provide a timely opportunity to go green.

<sup>5</sup> [www.savills.co.uk/reimaginingretail](http://www.savills.co.uk/reimaginingretail) Issue#2

### DEVELOPING GREENER

Given the urgent need to reinvigorate towns, cities and shopping centres we have a responsibility: to build back better buildings that were never designed for more than one type of use, or to be run efficiently. We can't afford to repeat the mistakes of the past. Retail places are the perfect places to undertake a number of environmental goals.

Today, most of the developments we're involved in are planned with sustainability at their heart. Sustainable development can be an overstated but underutilised term, so what does it mean in this context?

Green development of course needs buildings that are more efficiently built and operated. It also includes increasing natural light and ventilation. Perhaps even more importantly is creating spaces that are flexible and adaptable, so that if demands change the property doesn't become redundant. Many shopping centres have created impediments to the flow of people in our city centres, what we often call 'dead spaces'. Increasing provision of public, civic, and community-led spaces, improves connectivity and permeability.

Greener development means rethinking construction techniques or reusing what's already there. It's also about creating a more natural, immersive, integrated, and engaging environment. With sustainable development goals much like those often described within the principals of the Circular Economy or 15-minute neighbourhood; both elements may soon become part of planning policy in Scotland.

Greener development is also about greater biodiversity, which assists the environment but also has positive social, health, and wellbeing impacts. Let's face it, consumers and communities prefer greener, cleaner spaces. So, if you want to make more sustainable and investable retail places and town centres, it makes economic sense to include environmental and social improvements to any repurposing or redevelopment project being undertaken.

Greener development means embracing technology that supports decarbonisation and consumer experiences. SWG3 Glasgow is a blended arts, leisure and community venue that utilises Bodyheat technology that transfers the heat from nightclub dancers to cool the venue on club nights and warm it in the winter. It's a radical approach with a practical use, but it also provides an important educational and inspirational message on the scope of what's possible.

### A CALL FOR ACTION

Government policy on decarbonising properties is weighted towards the residential sector, while in commercial property the office sector has had the most notable transition towards a net-zero future; 45% of new office developments in London since 2018 have a BREEAM rating of Excellent or better. The lack of new development and the occupational challenges facing retail property in recent years means that the sector has so far lagged behind. That's why Savills Reimagining Retail project is so important in bringing together stakeholders and experts from across the industry to consider the micro and macro challenges and how together we can address them.

The future of retail property matters because these places form the hearts of our communities. Whether they remain wholly retail or are diversified to provide a wider range of community amenities, economic drivers, leisure or health, it is in the adaptation of these places that will produce vibrant resilient places to lead us into the next century. As an industry, we have a once in a generation opportunity to do something more valuable and meaningful with them.

After all, what legacy do we want to leave? For me it would be knowing that this place is better because Savills was here. What excites me now is that green principles are no longer disconnected with the demands from development to drive economic and investment growth but are actually well aligned. The tipping point is not just that climate risk is on a cliff edge, or that society has finally come around to accepting the need to adapt, but that critically it's the right thing to do economically. It is becoming increasingly clear that not doing so will impact on the ability to invest, or the returns from investment.

Develop with an environmental steer and you drive economic growth, but develop purely for economic growth could mean a missed opportunity when it comes to the path to net-zero, which we will only pay the price for sooner or later anyway. The cost of inaction will be a greater financial and environmental burden in the future.

Much of the greening of retail will be down to landlords improving their buildings and tenants cleaning up their supply chains. Yet the development world has a big part to play too in the adaptation of spaces that need to evolve, in bringing together multi-stakeholder centres, and in rethinking functions. In doing so, we'll also create more meaningful, relevant places in the process.





# THE COST OF GOING GREEN

## THE PLACE OF ESG, POLICY AND CONSUMER DEMAND IN CLEANING UP RETAIL'S REAL ESTATE



BY:

**David Jackson**  
Head of Savills Earth

**Tom Whittington**  
Director, Savills Retail & Leisure Research

### ESG AT THE HEART OF GOOD BUSINESS

There has been a step change in the property sector of late. Almost no day goes by without some mention of ESG and it is rapidly becoming the nerve centre that directs all decision making. ESG criteria are environmental, social, and corporate governance factors that investors or stakeholders use to screen potential investments.

Environmental criteria looks at the impact of resource consumption of a business on the environment, such as its carbon footprint or wastewater discharge, among other impacting activities. Social criteria address the relationships a company has with the communities where it does business, or how internal policies relate to labour, diversity, and inclusion. Governance criteria refer to a company's internal practices and policies that lead to effective and ethical decision making, legal compliance, and meeting the needs of external stakeholders.

While ESG continues to colour conversations, there are good reasons to listen. Many companies are deciding to embed ESG at the heart of their strategy. For one, investors and costumers are becoming increasingly concerned with sustainability. Not being seen to act can have severe consequences for the value of stock. Yet, beyond the perception of responsibility, there's also a compelling business case too. That is, there's good evidence that more efficiently run companies are more profitable, resilient, have lower overheads and attract more talent and custom. Lenders are also

making moves. In the future, companies that don't prioritise ESG may find it more difficult to access funding, which could inhibit growth. Companies must be one step ahead to remain competitive.

While tenants are demanding ESG-compliant space from landlords in the office sector, this has been less of a driver in the retail property sector, where fewer new developments have been occurring in recent years and retail tenants have had a myriad of other problems to navigate. A survey from PERE in 2019 found that almost half of investors had experienced little or no progress in ESG with retail investments, compared to just 20% in office investments. However, although not all retail tenants are directing the ESG agenda to the properties they occupy, institutional retail landlords are making it a significant priority.

Furthermore, while most of the largest retail brands do have ESG and sustainability agendas, smaller or privately-owned businesses may not yet see it as a priority if their customers aren't demanding it to be. Often, scale and access to resources prove major obstacles to change. And this reluctance proves an even bigger blockade to transforming retail as a whole. After all, small business isn't *small business* when more than 60% of UK retail floorspace is owned by these types of companies. Here, the customer sentiment will be the driving force, whether in advocating for retail companies that demonstrate their commitment to ESG, or by withdrawing their business from those that don't.

## RE:IMAGINING RETAIL

### ENVIRONMENTAL LEGISLATION

Despite Brexit, the United Kingdom and the European Union need to align their ESG and carbon targets. The British government is expected to continue introducing legislation that, broadly, places it on equal footing with the EU's sustainable finance regime. However, should their frameworks diverse, businesses that operate in both regions will likely opt to comply with the more onerous regime. The EU has passed two significant ESG-related regulations: the Sustainability-Related Disclosure Regulation (SFDR) at the end of 2019 and the Taxonomy Regulation in 2020. However, these are more guidance than legislation and are open to wide and largely unenforceable interpretation<sup>1</sup>.

As the UK steps up its net-zero policies, changes in legislation and those increased requirements being placed upon businesses will affect many asset classes including major UK retail portfolios. These include:

- MEES and minimum EPC ratings of 'B' by 2030
- Energy and carbon reporting
- Energy Savings Scheme
- Mandatory in-use performance of buildings assessments
- Petrol and diesel ban by 2030
- Heat network regulations
- Duty of care and hazardous waste regulations

The British government intends to start a "green industrial revolution" to stimulate recovery from the Covid-19 pandemic. However, so far the Government's 10 Point Plan<sup>2</sup> fails to adequately consider commercial property, with almost all of the focus on greener buildings being on residential property.

However, other considerations are pertinent in retaining relevance and resilience to shoppers, such as the way that goods are transported to customers; customers' travel to buy goods; or in minimising waste once the products have left, or indeed not left, their shelves. The Environment Act 2021 includes various policies that will affect retail property (e.g. biodiversity legislation, waste, water and regulations on electric vehicle charging), but many of these are weighted to new properties while failing to address the 1.4bn sqft of existing retail stock that needs to be improved and supported in doing so.

Without more guidance, this leaves owners and occupiers of retail property with an insurmountable focus to meeting the MEES regulations and improving the emission standards of their buildings; the EPC 'Cliff Edge'<sup>3</sup> is of particular relevance in the lead up to 2030. This may result in on a focus away from other equally important initiatives.

<sup>1</sup>See EU article p.134

<sup>2</sup>The Ten Point Plan for a Green Industrial Revolution

<sup>3</sup>See EPC Cliff Edge article p.18





### CONSCIOUS CONSUMERS

So, will consumer demand make the difference? There are signs that shoppers are responding to the climate emergency and preferences and needs are changing. Customers are paying more attention to environmental impacts, demanding more transparency, and making lifestyle changes. The 'plastic' revolution is having a tangible and profound effect on the ways consumers view the world and their impact within it; 80% describe themselves as being 'environmentally friendly'. But what does this mean really and does it translate into actual behaviour?

A frustrating paradox remains at the heart of green business: few consumers who report positive attitudes toward eco-friendly products and services follow through with their wallets. Coming out of the global pandemic left consumers with optimism for the future and more responsible attitudes to their environmental impact and importance of supporting their communities.

However, geopolitical tensions and a cost of living crisis have been damaging to how people have been able to live by these attitudes; two thirds of consumers expect inflation to curb their finances in 2022/23. So what can shoppers do about it, even if they want to? While 75% say they won't pay a premium for green products, this doesn't mean that they won't punish retailers that fail to adapt quickly to a greener, cleaner way of doing business. The last few years are littered with the debris of once retail stalwarts unable to move with the times. Trust is low and only a third of consumers expect retailers to follow through with their environmental claims.

There are a multitude of surveys out there that attempt to understand the rapid evolution in consumer demand for sustainable retail products. It boils down to four important considerations:

1. Consumers want to be green
2. They expect to get this for free
3. The cost-of-living crisis will impact on shoppers' ability to stand by their green principals
4. They don't trust retailers to follow through with their claims and will punish those that fail to deliver on them



Retailers (and their landlords) are evolving their offer to respond to these trends, but there are widespread fears of 'greenwashing' i.e. using token gestures to mask lack of action elsewhere, or that action falls short of need. The retail industry shapes the choices available to customers and is sophisticated in its communication with and influence on customers. Retailers can therefore play a central role in helping consumers make the transition to low carbon lifestyles<sup>4</sup>.

With the lack of transparency and knowledge about what goes on behind the scenes in the retail supply chain it is understandable that consumers will respond to what they can actually see and why shops themselves are therefore so important in showrooming a retailer's green credentials.

### WHO PAYS?

Nothing is free. So, who should pay for reducing the carbon impact of the built environment and the consumption of retail goods, or to improve their sustainability factors? In other words, who's responsible for greening our shops?

**Landlords?** The largest funds are generally swayed by their own ESG agendas and theoretically have access to capital. But, the costs may be prohibitive, or benefit tenants through lower energy bills. Most owners of retail estate don't, in fact, have deep pockets.

**Tenants?** Ultimately, retailers still require their stores to access customers and would do well to avoid alienating them through a lack of action. However, due to reduced margins and the lion share of their emissions being within their supply chain, the shop environment might not top the list when it comes to going net-zero.

**Shoppers?** Increasingly green, but can't or won't pay for it. Consumers will look at product branding, social initiatives, or environmental adaptations that are most visible when deciding whether to make a purchase. Making improvements to the emissions of an old building might not get noticed, so, from a consumer lens, why would a retailer or landlord invest in the invisible?

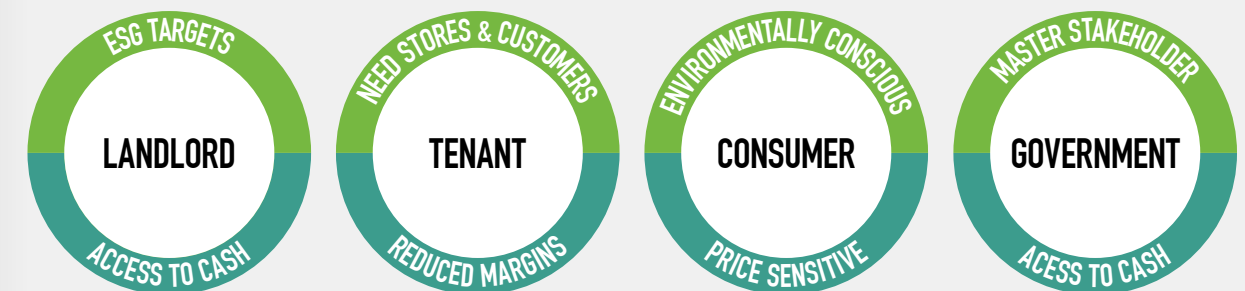
<sup>4</sup>See chapter 4: Occupational Carbon p.97

**Government?** The master policy maker, with the potential to wave both carrot and stick. However, governments often lack in-depth insight to appreciate an industry's nuances, or they may be swayed by policies that have more political impact. In essence, policy drivers aren't strong enough and will need to go further. The vast proportion of needed changes lack viability, or a common thread between multiple owners or commercial neighbours within town centres.

Whichever way we look at it, if we do nothing we all pay the price. The cost of inaction will be a greater financial and environmental burden in the future. Shoppers and communities prefer greener, cleaner spaces and are more loyal when social value and environmental improvements are made. Therefore if we want to make more sustainable and

investable retail places and town centres it makes economic sense to drive improvements through the ESG and consumer lens, while collaborating with tenants and policy makers on a joined-up stakeholder vision. Together, we all reap the reward.

### WHO PAYS?



## CONSUMERS AND SUSTAINABLE RETAIL

75%

OF CONSUMERS WON'T PAY A PREMIUM FOR GREEN PRODUCTS

50%

SAYING THEY WILL PAY MORE ATTENTION TO THE CARBON CHALLENGE

70%

OF CONSUMERS EXPECT BRANDS TO DO MORE ABOUT SUSTAINABILITY

1/3

ONLY 1/3 OF CONSUMERS BELIEVE RETAILER'S WILL HOLD TRUE TO THEIR SUSTAINABILITY PROMISES



# THE EPC CLIFF EDGE

## WHAT IMPLICATIONS DO EPCS HAVE ON RETAIL'S RESPONSE TO THE CARBON CHALLENGE?



BY:

**Tom Whittington**  
Director, Savills  
Retail & Leisure  
Research

### WHY ARE EPCS IMPORTANT?

British shops currently emit over 8MtCO<sub>2</sub> (million tons per annum) more than new build standards. The Minimum Energy Efficiency Standards (MEES) provide legislation and timescales of how leased buildings need to improve their energy efficiency in the coming years, via their Energy Performance Certificates (EPCs). EPC gradings range from A-G and are the same system we're familiar with when buying a fridge, with G being the worst performing. In order to optimise a building's efficiency there are severe consequences for a landlord who fails to climb the EPC ladder. Properties that fail to meet the MEES Standards can no longer be leased and could become 'stranded assets'.

As from April 2023 it will not be permissible to continue to rent commercial buildings with an EPC of Grade F or G. Furthermore, the Energy White Paper 2020 confirmed the Government's intention that all commercial rental buildings must be EPC Grade B before April 2030 (with an interim step to grade C in 2027). These regulations refer to England & Wales, with Scotland bringing regulations through earlier. However, to simplify matters in this discussion we group all UK stock together because the underlying message remains the same.

A substantial proportion and quantum of UK retail real estate needs to improve its EPC grade before the end of the decade, something that will challenge the commercial property market and regulators alike in the coming years. The benefit is that this would reduce our national emissions by 5.4MtCO<sub>2</sub> per annum.

### SO WHAT ARE THE IMPLICATIONS AND HOW MUCH RETAIL IS AFFECTED?

**By 2023, 185,000 million sqft of EPC F&G grade retail space is at risk of being unlettable unless urgently improved.**

**By 2030, 1.4 billion sqft of retail space needs to reach EPC grade B; equivalent to 83% of all UK retail real estate.**

This global figure is quite worrying and a lot for any of us to get our heads around. There are significant differences in how these ratings vary across different asset classes, unit sizes, geographies, and different parts of our town and city centres. However, no sub-sector is clear of the challenge. Questions remain about how implementable the legislation is given the scale and cost involved.

### RETAIL ASSETS DIFFER IN PERFORMANCE

For landlords with a significant exposure to retail property the EPC cliff edge can be seen as an insurmountable challenge. On the one hand, they are increasingly led by ESG drivers that invariably align them with the need to reduce property emissions. On the other it can be difficult to know where to start given wider environmental concerns across large estates. Properties could be modified in incremental steps, which may be more expensive in the long run as well as more disruptive to tenancy, or upgraded in one go at a greater upfront cost and with the possibility that the technology available will be quickly surpassed.

Looking at the main retail asset classes of shopping centres, retail parks, and supermarkets (i.e. stripping out high streets etc), these core retail assets account for 1.1 MtCO<sub>2</sub> pa compared to 'new build' standards. It's worth noting that this is not even reaching a net-zero position.

Of these asset types, by 2023, 35m sqft can no longer be leased unless improved above F&G grade and by 2030, 335m sqft will have needed to be improved to grade B. Critically, 4m sqft retail parks and 12million sqft shopping centres could be 'unlettable' within the next 12 months.

Put another way, 80% of institutional retail stock needs improving by 2030 – 8% before 2023. However, a considerable number are already heading towards the 2030 goal, with 20% of the total floor area already at Grade A or B.

There are different degrees of exposure to the regulations. Retail parks are the sub-sector most advanced towards reaching Grade B for 2030 (35%) and a further 36% at Grade C. The unit size and configuration is generally seen as being easier to retrofit improvements on a cost per sqft basis, although the large floor areas do require considerable heating and cooling. This sector also has the fewest poor performing assets.

While two thirds of retail park assets don't currently meet the 2030 target, that's far less than shopping centres where 94% of the space will need to be addressed across all EPC bands.

Supermarket units also appear to be performing relatively well, with 25% already at a B standard and just 8% at risk of 2023 stranding. However, refrigeration is a significant problem and one that is not measured by EPCs, which is why many in the industry consider an 'actual usage' certification (e.g. NABERS) more useful than the current MEES regulation in addressing a unit's emissions.

## EPC AND THE RISK OF STRANDED ASSETS

**2023 185M SQFT UNLETTABLE**

**2030 1.4BN SQFT UNLETTABLE**

**83% OF STOCK TO BE IMPROVED**



### THE REAL CHALLENGE IS HIGH STREETS

For large institutional and private landlords, investor obligations and lettability of space will be key drivers in reducing outlet emissions. The size of their individual investments and access to capital will increase viability. However, most retail property emissions are not associated with shopping centres, retail parks, and large high street blocks, which only account for around 25% of retail property emissions and 40% of the floor area. The rest is the responsibility of smaller investors, largely in fragmented ownership, widely dispersed, under multiple ownership, often in marginalised trading locations, and where occupational challenges also persist.

What then, does this mean for the other 60% of retail stock in towns, cities, villages, and parades up and down the country where there is limited access to funding, advice, and a common strategy on what needs to be done, by when, by what means and with what consequences?

By 2023, 150million sqft (20%) of this 'forgotten stock' can no longer be leased and is at significant risk of becoming redundant. By 2030, around 1billion sqft (93%) will need to have been improved.

Property EPCs are simply more difficult to improve if they do not reside within institutional ownership, with two major side issues bookending the market. Polarisation is occurring from shrinking retail demand; resulting in higher voids in off-pitch and tertiary locations. These same areas are seeing a reduction in investment, which means converting units to higher standards of efficiency is either lacking or unviable with a significant risk of further stranded assets.

While many town centres don't typically need the amount of retail space they currently have this doesn't mean we can afford to lose more shops solely because they fail to meet MEES regulations.

It also raises the predicament of how we improve retail units that are sitting empty. UK voids have now surpassed 150 million sqft, with 40% of this space being redundant. For context, the average amount that retail buildings need to reduce emissions by to reach the 2030 target is 7-10 kgCO<sub>2</sub>e for every 1,000 sqft of retail space. Therefore, UK retail voids account for 1.1-1.5 MtCO<sub>2</sub>e of emissions each year. There is a considerable potential missed opportunity to reduce a town centre's carbon footprint if we can't unlock and make improvements to these sites.

### CHALLENGES OF IMPLEMENTATION

Where will the investment come from to improve this space? These ownerships are often located in secondary and tertiary pitches and in smaller individual units. Small shops are more difficult and less cost-efficient to retrofit, or are much older, and it is therefore unsurprising that the average unit size of A-rated retail property is five times as large as G-rated properties.

There is also a strong correlation between the worst performing assets and high retail vacancy rates, which begs the question: will bringing some shops up to grade actually be worth the investment? Either way, it's shops outside of both key ownerships and core trading locations that are likely to require more government intervention, policy, and support to drive the change.

There are some fundamental issues related to the use of EPC that can be considered a distraction from wider concerns. Firstly, are questions around financial viability: how enforceable is it and are fines from ignoring the policy actually lower than the cost of following them? However, a critical caveat has been included in the MEES legislation that demands units to be upgraded "where viable". This statement may well unravel much of the policy.

Secondly, is that EPC assessment is often considered flawed and doesn't address the problem effectively. So, should other forms of certification be adopted instead? Thirdly, this only accounts for leased property so where is the legislation to address the emissions from owner occupied stock? However, there are some changes planned for EPC calculation methodology that should make it easier for retail units to achieve higher ratings.

***"Large institutional and private landlords only account for around 25% of retail property emissions and 40% of the floor area. The rest is the responsibility of smaller investors, largely in fragmented ownership."***

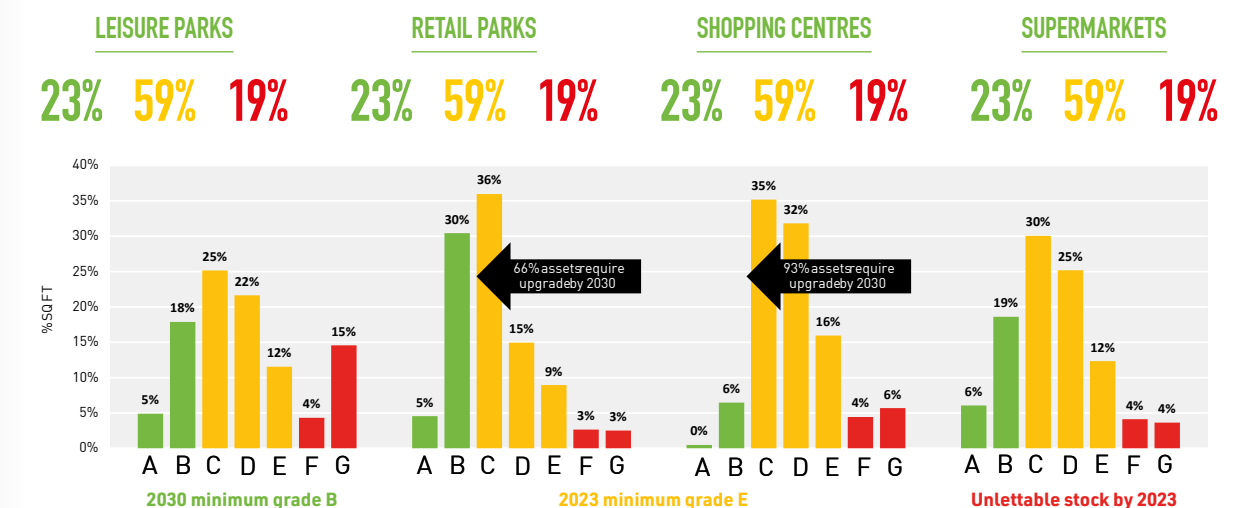
There are also problems for MEES implementation. For instance, where a landlord leases a unit in a stripped-out condition, a tenant's fit-out may decrease the final EPC rating below the level required by law. Given high demand for heating and cooling in retail, this might be a potentially common issue. The Department for Business, Energy & Industrial Strategy (BEIS) will need to clearly define legal responsibilities of tenants and landlords, as well as implementing the feedback from the recent consultation held on the subject. Although the government has announced its intention to support small and medium-sized businesses, until now few assisting measures have been taken. While fiscal incentives are missing, available grants are tied to specific conditions and generally not fit for the purpose.

But this isn't the whole story, the energy performance of the property itself does not reflect its full carbon footprint. There is a key difference between the energy use of a premise, the embodied carbon of the building, and the operational carbon from the occupier.

What else can landlords influence and is it also their responsibility, to consider the wider environmental consequences of bringing consumers or products to store? Additional to improving the whole-life carbon of retail property, both landlords and politicians will urgently need to support greener transport for shoppers and greener leases for tenants.

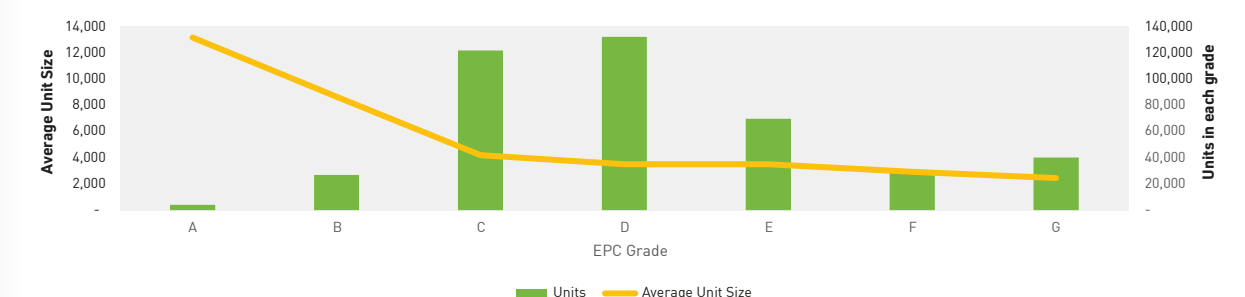
It seems incomprehensible that the industry will be able to resolve the EPC grading of such a vast amount of stock either in terms of timing (are there even enough installers?), or the cash to do so, or the ability of government to enforce it. However, it does raise the significance of the issue we face addressing emissions from commercially-let retail property. There are two alternatives. One sees a large proportion of occupied and trading shops having to close. The other sees the industry fail overtly in its need to reach a net zero future. Neither option is tenable and, therefore, a compromise will have to be found.

## EPC GRADE BY RETAIL ASSET TYPE (% OF FLOORSPACE)



Source: Savills; EPC

### UK RETAIL UNITS BY EPC GRADE AND STORE SIZE: SMALLER STORES TEND TO HAVE WORSE RATINGS



Source: Savills; EPC



# WHOSE EMISSIONS ARE THEY ANYWAY?

## DEFINING AND TAKING OWNERSHIP OF THE PROBLEM



BY:

**Dan Jestico**  
Director,  
Savills Earth

### SCOPE 1, 2, 3

The world of emissions accounting is a confusing one. You may have heard of greenhouse gas emissions being split into three 'Scopes' for ease of organisational accountability. Emissions Scope 1 is fairly easy to define, as it relates to fossil fuels that are directly combusted by the organisation, such as petrol, diesel or gas. These would typically result from space or hot water heating in buildings or transporting products and materials. You can measure this from the gas meter or money spent on fuel. Emissions in Scope 2 are also relatively easy to define, as these result from the production of heat or electricity that's consumed by an organisation, generally by lighting, ventilation, and computers in our buildings. Again, this is easy enough to measure from an electricity or heat meter.

Scope 3 is everything else and includes all other indirect emissions that occur in a company's value chain; such as from goods produced by others, business travel, employee commuting, waste production, investments, and leased buildings. Because these emissions are those that result from a supply chain, an organisation is not in direct control and it's a challenge to define a consistent boundary and therefore quantify these emissions.

Scope 3 emissions can be a significant proportion of an organisation's carbon footprint, with a considerable difference between a retail landlord's Scope 3 emissions (related to the Scope 1 and 2 emissions of tenants) and that of a retail tenant (related to their supply chains). Landsec have suggested that 80-90% of their retail property emissions are Scope 3, and several retailers have indicated that 95% of their emissions are Scope 3. IKEA's 2019 Sustainability Report, for example, shows that only 3% of its total emissions fall within its retail and other direct operations.

### WHOSE RESPONSIBILITY?

Retail landlords are increasingly working on reducing their Scope 3 through collaborating with their tenants. Due to the significance of their Scope 3, a retailer wishing to take responsibility for their emissions as part of a broader ESG strategy is likely to prioritise their supply chain to green their products and services, rather than the premises they occupy<sup>1</sup>. This can present landlords with a barrier to reducing their Scope 3, many of whom are seeking to install 'green leases'<sup>2</sup> to collaborate with occupiers to improving fit outs and operational energy usage.

<sup>1</sup> See Retailer Emissions article p.96

<sup>2</sup> See Green Leases article p.106

<sup>3</sup> See the BRC Climate Action Roadmap article p.88



Often retail tenants have resisted green leases because they are viewed as an additional commitment to costs that can't be written off operationally and are seen to benefit their landlord's investment values. Meanwhile, landlords that implement improved energy-efficiency measures have spent the money, but they see the tenant as benefitting from reduced energy bills, hence why some landlords hold back on energy efficiency capex. This leaves us with somewhat of an impasse.

This mismatch in priorities neglects the fact that an occupier's Scope 1 and 2 emissions, from the energy used to heat, cool, ventilate, and light their premises, will also be their landlord's Scope 3 emissions, and that energy efficient refurbishment, fit out and operation can help to reduce these significantly. After all, it sends mixed messages to consumers if a retailer with high sustainability principles and sells eco-branded products, occupies poorly insulated buildings, with inefficient lighting, and leaves the doors open all through the winter.

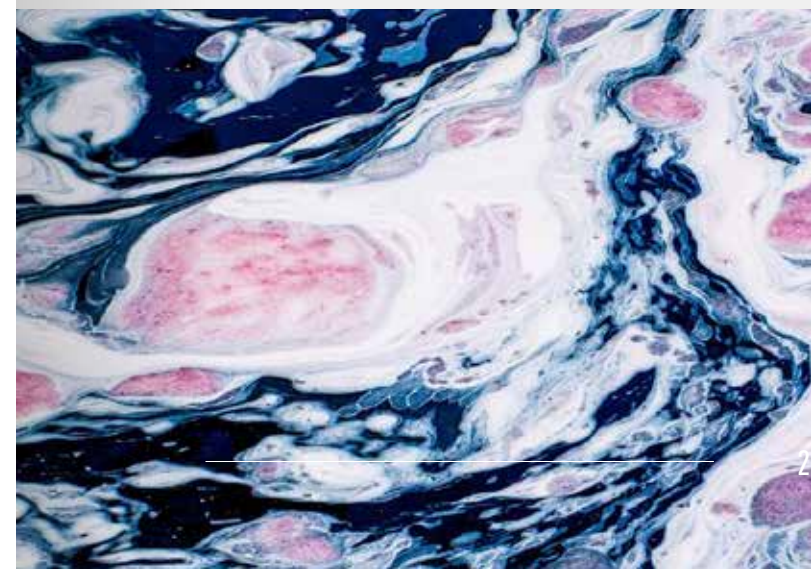
Progressive retail landlords are now seeking to ensure that spaces are refurbished during lease breaks. This facilitates low carbon operations, by eliminating the use of fossil fuels in the base build mechanical services, and collaboration with tenants to ensure that fit out specifications prioritise the most efficient forms of lighting and equipment. During operation, landlords and tenants should be working together to set and achieve energy use intensity (EUI) targets, as 80% of building emissions can be attributed to occupier activities. These are focussed on energy use (rather than carbon emissions), and benchmarks can be obtained from the Better Buildings Partnership (BBP) and Carbon Risk Real Estate Monitor (CRREM). The CRREM EUI figures can also be used to define decarbonisation pathways, ensuring assets are compatible with the Paris climate agreement target of limiting global temperature increases to less than 1.5 degrees Celsius. The adoption of third party assessment methodologies, such as CRREM, avoids greenwashing and provides confidence that the buildings that are being let and occupied are compatible with national net zero targets.

### A COLLABORATIVE APPROACH

Once greenhouse gas emissions from Scopes 1, 2 and 3 have been accounted for, an organisation should then be able to identify the largest sources of emissions and develop an overall decarbonisation pathway, possibly choosing to set organisational net zero targets within achievable timescales. Both tenants and landlords should commit appropriate resources to tackle the highest emissions sources first; prioritising resources to decarbonise different emissions sources over time, with relevant intermediate targets and measures set to ensure the organisation remains on track to achieving their net zero objectives.

The British Retail Consortium has developed a Climate Action Roadmap<sup>3</sup> to provide retailers with detailed guidance on decarbonisation pathways, with a net zero plan in place for shops and warehouses by 2030. This will be encouraging for landlords as it suggests that increasingly tenants are willing to engage in making the necessary improvements to how they fit out and maintain their shops.

While landlords have little control over a retailer's upstream supply chain emissions, they may be able to influence their downstream emissions, which include customer facing initiatives, providing sustainable living information, facilitating low-carbon travel, and improving product end-of-life recycling.





### A MATTER OF PERSPECTIVE

While Scope 3 for landlord and tenant differ significantly, with different challenges to resolve, there is a growing train of thought that with the increasing importance of ESG principles to both investors and consumers, a landlord should seek improvements in the ESG credentials of their tenants. So, should landlords take an increasing interest in their tenants' Scope 3? There is good reason to think that there will come a point when the social, ethical and environmental conduct of retailers will impact on the ESG credentials of their landlords, which could become a problem for funding or valuation down the line.

If this happens then this may include some landlords reducing exposure to retail tenants deemed to have the worst Scope 3 performance. However, few landlords have the luxury at present to be too choosy about who they lease space to.

### KEY CONSIDERATIONS

Quantifying all Scope 3 emissions is no mean feat and there will always be a degree of double counting, where a supplier's Scope 1 and 2 emissions are the retailer's Scope 3. Due to the difficulty in obtaining reliable figures for Scope 3, many organisations make commitments to achieve net zero for Scopes 1 and 2 by an earlier date than a Scope 3 net zero commitment, giving them time to work with supply chains to better understand and reduce emissions. Just because data might not exist today, it doesn't mean it won't tomorrow, and those supply chains that are able to provide data upstream will be seen as more proactive than those that aren't.

*"We should aim to account for carbon in the same way we do with finance, with an organisation's greenhouse gas emissions forming another column on the balance sheet"*



### PRIORITISING ACTIONS FOR RETAILERS:

- Investigate the energy efficiency of potential spaces for occupation
- Set relevant EUI targets in line with CRREM guidance
- Work with landlords to monitor, track and improve operational energy performance
- Seek to procure renewable energy where possible
- Request data from supply chains to define Scope 3 emissions
- Monitor, track, report and celebrate progress to decarbonisation

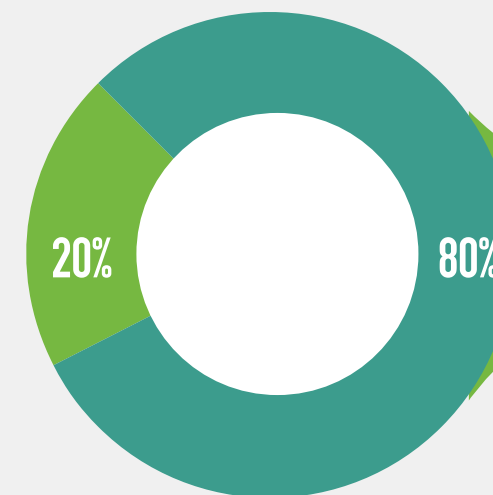
### PRIORITISING ACTIONS FOR LANDLORDS:

- Develop processes to record operational energy use from tenant spaces
- Work with tenants to monitor, track and improve operational energy performance
- Use lease breaks to undertake sustainable retrofit and decarbonise building services
- Monitor, track, report and celebrate progress to decarbonisation

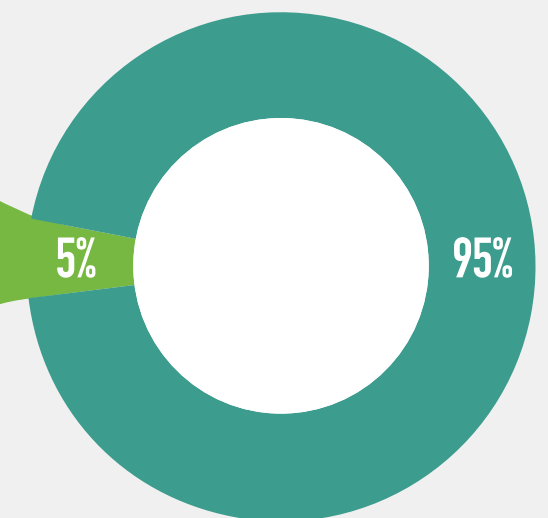
Eventually, we should aim to account for carbon in the same way we do with finance, with an organisation's greenhouse gas emissions forming another column on the balance sheet, so landlords, retailers and consumers are able to understand the true carbon cost of their purchasing and investment decisions.



### LANDLORD EMISSIONS



### RETAILER EMISSIONS



● Scope 1&2 ● Scope 3

**80%** OF RETAIL BUILDING EMISSIONS CAN BE ATTRIBUTED TO OCCUPIER ACTIVITIES



# HOW CAN RETAIL PROPERTY DEMONSTRATE ITS GREEN CREDENTIALS?

## THE PLACE OF ESG PERFORMANCE CERTIFICATION AND HOW ASSETS CAN BE MEASURED



BY:

**Brad Johnson**  
Director,  
Savills Property  
Management

### THE CHALLENGE OF NEW VERSUS OLD

The acceleration in ESG and sustainability requirements has not been evenly spread across real estate asset classes. As an example, offices, logistics and the build to rent residential sector have seen expectations, requirements, and standards increase considerably both pre and post pandemic. Not only that, but they have also seen an increasing take up of certifications and measures designed to assist stakeholders in understanding the conundrum of good vs bad stock from an ESG and risk-management perspective.

These sectors have seen considerable new build development, which has brought increasingly stringent building regulations and planning requirements that have driven up performance standards and certifications. For example, many new builds will have high energy performance ratings and are more likely to also have BREEAM New Construction ratings. The residential sector has seen the launch of both Home Quality Mark and BREEAM In-Use Residential in 2019 and 2020 respectively to quantify sustainability standards for that sector. These act as third party verified benchmarks for investors and asset managers in relation to ESG and give the security. Arguably, all these sectors are more mature in being able to articulate ESG performance and disclosures than retail, acknowledging the slightly calmer storm of sectorial and market pressure points.

So how does this relate to retail? If anything, it highlights how the sector is currently playing catch up as the post pandemic recovery continues. The challenges the retail sector has had are well documented; competition with online retail, the Covid-19 pandemic and the cost-of-living crisis affecting consumers' wallets or changing their shopping behaviour. In addition, the sector also has seen considerably less construction over the past five years, particularly of new shopping centres. Although St James Quarter in Edinburgh opened during 2021, it remains the exception rather than the rule.

This results in aging building stock (particularly an issue across shopping centres and high street retail), which requires investment to bring it up to the required standard. Equally, it also means that ESG credentials and baselines are either not available or are not relevant to the actual performance of the property. This causes issues for stakeholders as they reach for a tool to put their minds at ease when making investment decisions. Retail parks continue to see good levels of investment across the country, but there are continued issues over a lack of direct control for landlords, so performance data is hard to understand or quantify.

### WHAT DO WE USE TO ASSESS VALUE?

However, the retail sector is beginning to catch up and we've seen considerably more interest post-pandemic as green finance requirements are taking hold—particularly for shopping centre and retail park assets. High street retail remains a hard asset class to pin down as it lacks an appropriate metric that is ultimately occupier friendly or can gain buy in from all parties.

The question remains, how do investors and asset managers determine how the asset performs against ESG standards? Currently, it seems that the sector is reaching out for EPCs to fill that gap, a job that they are ill-equipped for and not designed to do. Whilst In-Use Performance metrics are likely to become mandatory for the office sector from 2023, there are currently

no plans or timescales for a similar move in the retail environment. In a way this is understandable, there are real compliance risks as the potential for a minimum EPC rating of B is now only eight years away and will impact upon around 85% of all properties in England and Wales. However, this risk should be treated with a lot of caution due to the theoretical approach to the application of EPC assessments. The sector itself would benefit from a more impactful and meaningful framework for assessing properties. So, what options are there and how could this change in the future?







#### CERTIFICATION IN PRACTICE

There are a couple of certification options that we could see establishing themselves:

**BREEAM In Use** – The Building Research Establishments staple In Use performance certification has 64 certifications against its Retail scheme as of March 2022. The majority of these are held by institutional investors' assets. BIU covers sustainability holistically and scores buildings from a Pass to Outstanding rating based on its sustainability performance. There are no 'Outstanding' rated retail in the UK, but four 'Excellent' rated schemes (St James Quarter, The Brewery, Westfield's London sites) and 11 'Very Good' rated schemes).

**Fitwel** – There are currently two shopping centres with a Fitwel certification in the UK. Investors looking for market differentiation and wanting to focus on health and wellbeing rather than environmental metrics could find Fitwel a suitable certification methodology. Assets are scored on a 1–3-star basis to demonstrate the performance of assets across health and wellbeing categories. Fitwel offers a flexible, people-orientated methodology for existing assets to assess their impact.

**Display Energy Certificates (DECs)** – DECs have always struggled for traction outside of the public sector (where mandatory requirements exist) in the UK. They consider actual performance use within a building and therefore can help demonstrate actual property energy performance. However, DECs have been bypassed by the NABERS rating as the In-Use rating of choice in 2021 and it's hard to see how they make a push into retail now given the lack of take up outside of the public sector.

**LEED** – From US Green Building Council, is a rating system that assesses the performance and credentials of a building's construction, materials, design, and operational performance and provides guidance on interior spaces and shop fit used to conduct the retail sale of consumer product goods. Various multinational retail chains, including IKEA, are incorporating LEED principals for their showroom and storage areas.

***“We anticipate that frustrations with EPCs will continue, and the sector will ultimately seek to respond and utilise a more meaningful certification—much like the office sector has with BREEAM and WELL standards.”***

#### WHAT NEXT?

We anticipate that frustrations with EPCs will continue, and the sector will ultimately seek to respond and utilise a more meaningful certification—much like the office sector has with BREEAM and WELL standards.

The standard provides a structured, third-party audited framework that provides an improvement action plan. We see this as adding value and provides a transparent approach to making property and scoring improvements upon reassessment. The push towards net zero emissions is also well covered in the Energy module, as the BRE actively is working with other key stakeholders in the built environment sector to ensure both whole-life carbon is accounted for.

For retail parks and high street retail, this challenge will likely continue and there are no easy answers due to the lack of direct landlord control and a continue reluctance for occupiers to want to work collaboratively on building certifications. A new solution may be required that will require industry and sector-wide collaboration between landlords and occupiers.

Furthermore, the fragmented ownership of lower grade stock is a considerable challenge. We would anticipate key owners of retail real estate to have a handle on this by the end of the decade. How we deal with the rest of the stock is less than certain.

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ACCESS TO  
HEALTHY FOODS



OCCUPANT  
SAFETY



PHYSICAL  
ACTIVITY



# RETAIL INVESTMENT: GREEN PREMIUM OR BROWN DISCOUNT?



BY:

**Mark Garmon Jones**  
Head of Savills  
Retail Investment  
& Repurposing

## HOW ARE ESG MATTERS AFFECTING THE INVESTMENT MARKET AND HOW DOES THIS TIE IN WITH THE REPURPOSING AGENDA?

### WHAT'S SHAPING RETAIL INVESTMENT?

After a challenging few years, two things are clear: shopping centre investment is getting back on track and existing trends have been accelerated. 2021 saw 74 deals, followed by similarly anticipated levels of activity in 2022. Meanwhile, the green agenda appears to be top of mind, with ESG permeating our daily conversations with investors.

However, despite this apparent enthusiasm, it remains difficult to isolate the specific benefits of green schemes from other factors that distinguish the cream of the crop. Instead, we see several investors focusing on prime regional schemes at rebased rents, or convenience-focussed open-air schemes.

It is encouraging, therefore, to see more and more investors starting to discuss the benefits of green schemes. For instance, in their ESG policy, M&G Real Estate Limited state that sustainable assets are better performing assets. Mitiska REIM estimate an 8% premium on the schemes in their European retail park portfolio with the greenest credentials.

But, is premium just premium irrespective of whether it is green and is the issue more about lack of action and the so-called 'brown discount'?

### DEFINING A PREMIUM

What is the green premium? The debate has occupied the office sector for some time. One side argues that the highest performing BREEAM rated buildings make the best investments. The other side contend that the greenest developments are, usually, also the newest shiniest buildings in the best locations with the trendiest office configurations. So, the argument goes, the green element is part of a wider package of benefits that make the development so appealing to occupiers and investors—it's a product of the times, of trends, and doesn't command a premium by itself.

There is a key difference between standing and new stock. The office and shed markets have been pumping out new developments over the last decade; each greener than the last using the latest environmental technology available. Building standards are evolving rapidly and there are stringent planning requirements regarding sustainability that all new buildings must adhere to.

But, during the same period, no more than a handful of new shopping destinations have been built and it proves difficult to measure the retail market using the same metrics.

For retail, creating greener stock must come almost entirely from the retrofitting of existing stock. As a result, there is a drift towards BREEAM In-use—that is, allowing an assessment to be carried out on a buildings built form and service—with a handful of the biggest shopping centres across the UK now registering this certification by demonstrating environmental and operational efficiencies and capability. However, this requires investment, which invariably means it's received by the best; blurring the distinction of what defines a premium.

In the world of real estate investment, we often talk about the Flight to Prime to describe the increased polarisation between demand for the best space versus the worst. It's an ever-present trait of the retail sector, particularly where the overall need for retail floorspace is reduced.

Recent research by Savills has explored how 'prime' retail isn't just about luxury malls, but differs in perspective depending on who you are and what you sell. A prime site for a Co-op convenience store may be a very different proposition to the prime site for a major brand like Apple where it's all about identity, marketing and showrooming, or Lane7 which is tied to the night-time economy. That's why we continue to see the best investment demand for community and core city centre and regional mall assets.

Retail has had a perfect storm in recent years: from ecommerce, the global pandemic, geopolitical tensions and cost of living crisis. Like it or not, a wide array of factors are affecting retail performance, a brand's ability to pay its rent, and consequent impacts on asset valuation and investment premiums. That's before we even start considering the environmental performance or social benefits of the building. When, recently, several shopping centre's assets recorded an 80% loss of value, this had nothing to do with their carbon footprints or build quality.



However, there is a sea of change and advancing legislation that is likely to flip things on its head in the next few years. ESG is driving major institutions to rethink their approach to how they manage and operate their schemes. Increasingly, there's a school of thought that schemes that operate in line with environmental and social policies in particular will prove more favourable, by garnering support from tenants due to operational efficiency and from customers through community engagement.

Indeed, recent news announced Aviva Investors' £227 million sustainability-linked refinancing to London investor and developer Romulus, who acquired the Centre Court shopping centre in 2021. The 10-year, fixed-rate loan secured against a number of assets including office, hotel and retail sectors follows Aviva's commitment to originating £1 billion in sustainable transition real estate debt by 2025.

With the full value of the loan linked to sustainability key performance indicators, favourable borrowing rates can be secured by achieving measurable environmental improvements. A lower cost of capital is clearly consistent with the idea of a 'green premium', albeit more indirectly than a growth in capital value.

Invariably, the better trading locations can be greener because they attract more inward investment, are usually subject to positive asset management, and are aligned with occupational demand. Which brings us neatly back around to the question: what do we mean by 'premium'? Or is the issue around green pricing more about evolving an asset rather than seeing it in decline?





### THE LOST MIDDLE

According to research from Deepki, 79% of 250 European pension fund managers surveyed expect commercial real estate with good ESG credentials to provide better returns or 'green value' over the next five years. However, real estate that falls short will suffer significant value depreciation as a result of 'brown discounting'. Two thirds of European pension funds believe the impact of brown discounting is set to increase significantly over the next three years.

If past performance is any indicator of the future, their predictions are unsurprising. The study showed that over the past 12 months, 40% of pension funds said they had seen depreciation of 21%-30% due to brown discounting. Furthermore, returns on buildings with poor environmental credentials are restricted by CAPEX requirements, which investors are increasingly factoring into their cashflows, as changes in legislation are implemented over assumed hold periods.

Essentially the 'brown discount' is a direct result of the do-nothing scenario, which is considered to have more severe negative implications for property values than the positive implications of a green premium. The problem is one of inactivity and while this might sound like the result of apathy it could also be because of a lack of opportunity to change.

The 'lost middle' has often been used to refer to retail brands that, due to a lack of investment or a distinctive offer, have lost relevance with their customers, with inevitable consequences. The flurry of compulsory voluntary arrangements (CVAs) in 2018-2020, during which 16,000 shops were impacted, speaks for itself. However, the lost middle is just as relevant a concept for shopping centres and high streets that lack a point of difference and, therefore, struggle to compete with ecommerce or a congested retail presence.



Nationally, much of the most challenged retail stock, and those with the highest occupational voids, is in the 'lost middle' category; either isolated schemes or marginalised high streets at the periphery of town centres. The investment values of these assets will remain challenged, but given that there is a correlation between the best occupationally performing stock and the level of additional funding available, it's hard to see how some of these places will adapt without major investment.

Who'll upgrade the poorest quality stock- either occupationally or environmentally- given either a lack of funding or, more often, viability? Given the potential for heavy brown discounting, or indeed the MEES EPC regulations, will some of these properties retain any value at all? The impact of a non-compliant EPC could have a significant impact on yield, values and lettable, as many of the costs required to enhance ESG credentials remain unknown.

The brown discount can't be disaggregated from lower occupational value; the two are invariably entwined. Occupation brings investment and investment (theoretically) improves occupation. But, hope is not lost! There's an alternative future and one that we've been commenting for a while now. Where there is no longer, occupational demand for the retail that's in situ, there is an opportunity to adapt through repurposing. Active repurposing provides an opportunity to improve the green credentials of a building and, thereby, improve its investment credentials.

### ESG LED REPURPOSING

Where does this sit with the wider repurposing agenda and what will we see in the next decade?

Repurposing/regeneration on a large scale may prove the only solution for a sizeable proportion of lower quality stock. But, where ownership is out of the control of major landlords, repurposing will rapidly become a local authority issue, with the latter's ownership or partnership instrumental.

ESG will provide the carrot for institutionally-funded assets, but other ownerships may need more of a policy stick or financial support. Access to debt will play an important role with lenders increasingly seeking green credentials and planning authorities stipulating more sustainability requirements.

A further challenge to the market might be the inevitable rise of embodied carbon measurement and costing. Over the next decade it will become harder for developers to justify demolition and new construction, both in terms of their own ESG commitments, and through new planning policy. However, until an industry standard measure for the amortisation of embodied carbon has emerged, it will be equally hard for investors to justify holding older stock instead of redeveloping it.

This is partly driven by the building age of many shopping centres and the range of differing brands and stakeholders that underpin the shopping offer. This further reinforces the requirement for a long-term environmental strategy, being created by a pro-active asset management role, to create wise investment decisions that can challenge and lead to improved retail values.

### LEADING THE WAY


So, can we directly and definitively prove the 'green premium'? In such an occupationally demanding market, not yet. On the other hand, the cost of inactivity seems clear. If bringing down emissions and aligning with ESG principals is not part of the strategy there is, if nothing else, an elevated risk that the market will punish the worst assets and devaluation will occur.

Fortunately, however, we're pleased to see that more and more of the schemes we deal with have a green edge or are undergoing ESG initiatives that will improve the grade of the stock. For the best examples, as ever, this will produce an investment premium.

*"The cost of inactivity seems clear; if bringing down emissions and aligning with ESG principals is not part of the strategy there is an elevated risk that the market will punish the worst assets and devaluation will occur."*







# CHAPTER 2

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# DECARBONISING

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# ASSETS

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MOVING EXISTING  
ASSETS TO CARBON  
NEUTRALITY



# CREATING AN ESG STANDARD FOR RETAIL ASSETS



BY:

**Tony Whitehorn**  
Director,  
Savills Property  
Management

**Graeme Clark**  
Director,  
Savills Property  
Management

## HOW DO WE MEASURE AND BENCHMARK DIFFERENT RETAIL ASSETS ACCORDING TO THEIR OPERATIONAL ESG CREDENTIALS, AS WELL AS STRIVING FOR BEST PRACTICE?

### WHY IS A STANDARD IMPORTANT?

The creation and embedding of an ESG standard across the retail managed portfolio is critical in realising our sites' sustainability objectives in tandem with client requirements for green performance. More than ever, we are being asked by clients and occupiers what our strategy is in relation to ESG and green credentials. We are now in a position, with the support of Savills Earth and the expertise within the team, to harness the good work already undertaken and ensure that the Savills vision on ESG is realised.

To address this, we have created the Savills Property Management ESG Standard, to which all the shopping centre and leisure assets we manage are now being assessed against.

Communicating to our site teams what ESG means for them and their sites is fundamental to ensuring its success. Breaking down the parts so that they can fully focus on areas within environmental impact and performance, and explaining and demonstrating how we monitor and report on this, is key. A lot of the actions on an ESG strategy will be around the environmental elements, so first we need a baseline to work from; a set of core principles that our managed sites can easily adopt and embrace.

A set of focus areas including general governance, health and wellbeing and data reporting will be at the heart of these core principles. For the retail sector, the sustainability standard will lay out the fundamentals of ESG performance and the potential growth of the assets' green credentials.

The standards themselves cover several areas, including community engagement, waste reporting and compliance. These guidelines and criteria are then judged by a panel of peers and sustainability experts and accredited as appropriate through bronze to platinum grading. Always evolving, we are challenging our teams to push the ESG agenda with our service partners, occupiers and clients. This ensures that the realization of an ESG standard is embedded at all levels of our touch points.

Furthermore, each site will be asked to complete an ESG self-audit to determine the baseline and areas in which improvements could be made. These again will align to client requirements and help to push the agenda of ESG across the retail network.



*On retail schemes we manage we've reduced the amount of waste going to landfill from 7,000 tonnes in 2019 to zero in 2021.*

### TANGIBLE IMPROVEMENTS

Some of the fundamentals of the retail ESG strategy are within the areas of waste and recycling. As a direct result of the baseline, we have been able to reduce the amount of waste going to landfill from 7,000 tonnes in 2019 to zero in 2021, reduced our hazardous waste output by 50% in the same time period and, most notably, increased the energy from waste by a staggering 713% - now 850,000 tonnes of general waste is being used as energy from waste.

To be able to make data-led decisions in regards to ESG is paramount. Savills now have the ability to pull a variety of data into a central warehouse where we can map and visualize the data in a user friendly and informative way. For example, when working with service providers, we can count vehicle types in a retail park and calculate the carbon footprint of a site which is hugely valuable when setting targets for reduction. We can also analyse the type of engine to determine occupancy of electric vehicles (EV) and vehicle age as well as other metrics for benchmarking and strategic decision making.

As demand grows in the UK, there is a focus on solar PV and EV charging and people expect to have these types of green energy and accessible charging facilities readily available. Our customers are becoming more aware of not only their responsibilities towards ESG, but also the commitments from our clients, sites and occupiers as we head toward sustainable targets of net zero 2030. As a minimum, where practical, all of our retail sites will undertake feasibility studies on EV charging potential within the managed car parks. Partnering with companies such as Podpoint, BP Chargemaster and Tesla allows us to grow the network of available charging destinations within our retail portfolio.

Currently, Savills managed sites have over 700 EV charging stations in over 100 retail destinations. This is set to increase throughout 2022, as centres such as Metro Centre in Gateshead get approval for 200 new EV charging bays and solar PV to power them.

### CHALLENGES AND FURTHER EVOLUTION

Capacity and grid availability are challenges to the roll out of additional EV, so working with Savills Earth and the Savills Energy team on a coordinated approach is required in order to correctly scope out the increased EV charging facility requirements.

Ensuring our supply and occupier partners are aware of, and adhere to, minimum standards of a sustainability framework for retail shop fits is a further challenge. Each retail destination will have a different set of criteria for achieving this, but the most common requirements are around low energy or LED lighting, PIRs (passive infrared) and sensors so as to achieve zoning of lighting and heat recovery systems to increase efficiency and reduce heat loss. The materials used on the fit out also play a big part, and where possible it is encouraged that sustainably sourced wood, local stone and other natural materials are used and produced in the UK where practical to reduce the impact of sourcing.

There are a number of ways in which we encourage our occupiers to operate their spaces in a sustainable way, including switching off lighting, checking temperature set points, and encouraging the use of ecolabel cleaning products to reduce the volume of harmful chemicals – or if possible, remove all chemicals entirely. Navigating ESG can be difficult. Breaking it down to its component parts and communicating this in the right way, to generate not only buy in, but enthusiasm, is crucial to the effectiveness and the outputs.

It's clear that we must build on the baseline of the ESG agenda, and ensure this is at the forefront of everything we do within retail. ESG touches all elements of the day-to-day operations of a site and over the course of 2022 and beyond, the standard will be fully adopted and championed across our managed network. As technology improves and solutions become more affordable, we have built-in flexibility to evolve the standard. A gold standard today might be only be silver in a few years. This will help encourage and bring forward more ESG enhancements in the future.



# ENERGY SOURCING AND PRODUCTION – OPPORTUNITY OR TRILEMMA?



BY:

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**Thomas McMillan**  
Director,  
Savills Earth

## WHAT ARE THE KEY CONSIDERATIONS FOR RETAIL LANDLORDS SEEKING TO IMPROVE THE GREEN CREDENTIALS OF THEIR ENERGY SUPPLIES?

### SHOULD LANDLORDS GENERATE ENERGY?

Out of approximately 26.5 million buildings in England and Wales, there are only 1.5 million commercial and industrial properties. Yet, these are responsible for around one third of UK buildings emissions. According to the CCC, after offices retail is the largest non-domestic energy user within the sector. More and more retail landlords are looking to clean up their energy usage, either through operational efficiency improvements, sourcing more sustainable electricity, or producing their own renewable energy.

The 2022 cost of living crisis, associated energy prices and war in Ukraine have brought security of supply rapidly into focus; perhaps no more than for the retail property market, whose fortunes are entwined with that of shoppers. Consumers are impacted by energy costs both through their home bills, but also through onward purchase of goods; with one supermarket chain stating that their energy bills have gone

up 400% in 2022 and passing at least some of this cost onto their customers is unavoidable. Retailer and landlords are therefore increasingly focusing on aligning with renewable energy, both in terms of sourcing and in generating clean energy. While it often isn't as easy as it sounds, there's a great opportunity for the retail property sector if projects are undertaken in a careful and considered way.

A 2021 study by Ernst & Young found that 76% of consumers would rather buy and use sustainable energy generated in their own community. If everyone wants green energy, but a third of our energy production remains tied to fossil fuels, there's a clear lag between our national targets for green energy and the insatiable demand for it from businesses and consumers. There simply isn't enough of it, particularly during the parts of the day when there is most demand.

The government has targeted 100% low carbon energy supply by 2035 and, while we can debate the likelihood of reaching this objective, we can all agree that we'll see a step change in the development of renewables over the coming decade.

Even if we increase our national generation of clean energy, it takes time to get them online (e.g. nuclear), or its distribution and storage (e.g. wind and solar).

In most cases, the mainstay stopper is the ability to connect into large enough infrastructure to be able to distribute the renewable generation. National Grid and the Distribution Network Operators need to make considerable physical changes to their networks to accommodate. This means the requirement for new land for new equipment, time to upgrade overhead lines etc. In Scotland, where a huge amount of wind generation is settled, they are having to pay producers to stop generating as there is not enough demand in these areas to accommodate it. Undersea cables are beginning to take many gigawatts (GW) of renewable generation south of the border.

Two of the biggest considerations for energy use and supply from retail landlords is through photo-voltaic (PV) production and provision of electric charging (EV) charging points.

Image Source: Sovereign Centros



### RETAIL'S PLACE FOR PV

Given the lag in supply and demand it's understandable why more and more landlords are now considering generating their own energy as it plays well with ESG, consumers, and energy bills. The potential for solar generation on retail is huge, but needs to be carefully considered. A strategic assessment of a building's efficiency, load profile, and growth needs to be taken into account. As well as the likelihood of limiting export to the grid in areas of Distribution Networks which may be struggling.

With one panel needing just under 2m<sup>2</sup> of roof space it's a very flexible solution and suitable in small configurations as well as large; Meadowhall's array is the size of 88 tennis courts. New technology is also enabling more installations, such as integrated solar tiles that reduce roof load.

In theory, the 650 million sqft of retail & leisure parks, shopping centres, outlet malls, and supermarkets in the UK could accommodate almost 26 million solar panels (at 50% coverage) with a total system size of around 6.5GW (equivalent to two times the 3.2GW capacity of Hinkley C nuclear power station). The Solar Energy UK 2030 target for solar is 40GW by 2030, of which 7GW is expected from commercial buildings, with 2GW already online. In effect, the potential to deliver on solar via commercial property exceeds the current targets from retail alone—and that's before looking at industrial or office properties.

In practice for a myriad of reasons, this volume of retail space won't work for wholesale PV installation. Schemes need to be fit for purpose rightsizing to application, calculated and not gestural. A common mistake is adding renewables onto a building for planning with limited design to suit what the building actually uses, can support, or from grid capacity. An estimated 5-10GW of wind farms are pipelined to come online in the next few years, but the infrastructure isn't there to bring it to our homes and businesses. The same issues will apply to large scale PV installations.



Image source: Meadowhall Roof Solar Panels



### MEETING THE NEED FOR EV

With the plan to phase out diesel vehicles by the end of the decade, the growth required in the EV market is staggering. At the end of April 2022 there were more than 470,000 battery-electric cars in the UK; they now account for 15% of new registrations. However, this remains below 2% of all passenger cars on the road. It's estimated that there will be more than 6.5 million pure electric vehicles on UK roads by 2030.

Aside from the scale required in manufacturing, which is having its own supply chain crisis following the global pandemic and the Ukraine war, there are significant issues with the infrastructure required to charge EVs. The UK government has set a target to increase tenfold the number of public chargers to 300,000 by 2030 after criticism that the rollout of public infrastructure is too slow to match rapid growth in sales.

By the best will in the world, the government won't be able to deliver this unprecedented growth without private sector intervention that will have to have a significant role in delivery, particularly as land ownership will play an integral part. Given that even with fast charging it takes time for consumers to fuel their EVs, there will be a close relationship with working and shopping environments in making charging as seamless a process as possible; particularly for UK households that don't have their own off street parking and private charging facility.

Dwell time is one of the key considerations to undertake when scoping the opportunity for sizing of EVs, in both kw and number of spaces. Retail provides a prime opportunity as people do tend to spend longer periods and can shop, eat, or drink while waiting. Shopping centre, retail park owners, and drive-thru operators are therefore seeing this as a key opportunity. In theory, if every 5,000 sqft of retail parks, shopping centres and supermarkets had an EV charger, this could provide 20% of the government's 2030 charger target.

However, a considerable amount of stress will be placed on the grid to provide more demand for EV. This is a physical constraint which, again, creates the need for Distribution Network Operators (DNOs) to upgrade cables, transformers, substations etc. to be able to cater for the extra demand. Unfortunately, it isn't as simple as just installing a row of chargers as there are issues around grid capacity and whether the local infrastructure can cope with increased demands. Reports abound of frustrated EV owners getting 'range anxiety' or finding that fast chargers do not deliver on their promise of quick turnarounds because the installers negated to sufficiently assess local constraints.



In effect, the limit to whether that's actually deliverable is probably down more to government and DNO investment than the retail landlords themselves.

There's a big difference geographically in the charging facilities installed to date. London has three times the chargers by head of population than Wales and six times that of Northern Ireland. Rural areas are particularly underserved. There is also a distinct negative correlation between low affluent local authorities and availability of EV charging. With everyone trying to increase charging facilities there is a risk that a lack of coordination will see an oversupply in some locations, under supply in others and the promise of fast charging being unrealised.

***"EV is yet another demand for electricity and PV has the potential to export excess electricity to grid. Both technologies will require reinforcing almost the entirety of the UK network."***

### THE ENERGY HIERARCHY AND TRILEMMA

In principle, adapting lots of sites to produce or provide vast amounts of energy sounds like an excellent solution to meeting the growing need for cleaner energy. However, there are some key issues that need to be considered that can reduce practicality and increase cost if full due diligence is not undertaken.

EV is after all yet another demand for electricity. PV has the potential to export excess electricity to grid. Both technologies will require reinforcing almost the entirety of the UK network.

The Energy Hierarchy is a classification of energy options, prioritised to assist progress towards a more sustainable energy system. The energy hierarchy doesn't discount the importance of renewable energy, but puts more focus on the 'lead in' to using renewables. It follows the strategy that we should all undertake when assessing our needs; principally following the need to understand your energy through measurement, efficiency, and management before looking to actually implement renewable measures.

To put this another way, seeking more renewable energy sourcing or production are themselves meaningless objectives if not part of a wider strategy to optimise energy efficiency. Bang for buck, energy efficiency is of much more significance than energy delivery. The Carbon Trust suggest that for retailers a 20% cut in energy costs can represent the same bottom-line benefit as a 5% increase in sales.

According to the World Energy Council, the energy trilemma is finding the balance between security of supply, affordability, and sustainability. The UK performs relatively well in terms of energy security, but less so on sustainability; and barely registers on affordability. There's a misalignment in meeting the objectives of producing clean and cheap energy as the infrastructure is often too antiquated to meet rapidly evolving needs and technologies.

Furthermore, we haven't quite resolved the issue of energy availability and point of production. Too often, we have renewables when we don't need them; A gap between daytime pricing and night time is increasing under energy trilemma, for example Octopus Go's night time tariff is a quarter of its daytime tariff. Battery technology is coming online at scale and will be a game changer, as could bidirectional charging of EVs whereby the vehicle parked on people's drives can act as a battery for devices used in the house. A new development currently under construction in Wales will pair a 22MW battery with a 228MW windfarm to provide enhanced frequency response services for the National Grid.

However, while energy solutions are rarely straightforward to implement, they remain an important way for landlords to address their own energy usage and supply. The retail industry has scale and, therefore, represents a vast opportunity for meeting a large proportion of a landlord's energy need; the needs of their customers; meeting the government climate change targets; or the more pressing net zero targets that many private sector organisations have set. The journey to Net Zero will not be an easy one but those organisations that collect good energy data, while taking a whole system approach that considers energy efficiency before renewables, will be best placed to deliver positive change to the retail sector.

***"A 20% cut in energy costs can represent the same bottom-line benefit as a 5% increase in sales."***

The Carbon Trust

### RETAIL PROPERTY COULD PROVIDE



2.6 MILLION  
SOLAR PANELS



PRODUCING  
6.5GW



ENERGY EQUIVALENT  
TO 2X HINKLEY C  
NUCLEAR REACTOR



20% OF UK PUBLIC  
EV CHARGERS





# CAN DECARBONISATION BE COMMERCIALISED?



BY:

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Principal Utilities  
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**Hydrack**

## ARE RETAIL LANDLORDS MISSING OUT ON ENERGY RELATED REVENUE STREAMS THROUGH TECHNOLOGICAL INTERVENTIONS THAT INTENSIFY, DENSIFY AND REPURPOSE MARGINALISED AREAS?

### THE POWER OF POWER

The sustainability and decarbonisation agenda is often seen as a capital expenditure nightmare, with many landlords pondering whether there are meaningful financial returns. While there are environmental, social and governance (ESG) credentials to be gained, this may be seen to provide little immediate value. With retail vacancy at around 15%—and possibly heading towards a quarter of stock by the end of the decade—a great deal of retail space is being underutilised and the retail market is running inefficiently. Repurposing space to alternative property uses will continue to address these issues, but there are other options that allow for other revenue streams.

From an engineering standpoint, decarbonisation can be commercialised; with opportunities available to landlords and investors that can see a return on their investment, while improving their sustainability credentials.

One thing many retail landlords do have is space, either from excess voids, downsizing anchors, or closed department stores. Additionally, there are not just spaces within buildings to consider, there are retail parks and shopping centres with underutilised parking areas. Whether internal or external, there are opportunities for this to be better utilised and therefore commercialised.

By understanding both the suitability of location and the availability of infrastructure for a site, it's possible to diversify the income stream while reducing its carbon impact and improving the return on asset values.

As we move towards reducing the impact of the built environment, the National Grid is struggling to meet the power demands of our ever-changing energy landscape. Due largely to the growing uptake of electric vehicles and the shift from gas boilers to heat pumps, the demand required from the Grid has increased significantly. Consequently, we're seeing escalating costs for customers wanting a new or increased electrical supply and a major challenge in the grid's capacity to meet surging demand. The waiting time to upgrade can also be lengthy, up to three years in some cases for as little as 2MVA. For context, that would serve about 100,000sqft of internal retail space with electricity.

It is not just the big cities that will see new homes built in the centre. Yes it is most visible and prominent in places like Manchester and London, but as the data shows, smaller towns will also be delivering lots more housing in the very heart of their communities. This includes those with struggling town centres up and down the country.

Developers have so far favoured large strategic sites in the major cities, but government funding initiatives are starting to increase the viability in smaller places and we are seeing an increase in appetite from niche developers seeking to tackle the challenges in smaller and regional locations.

There is huge volatility in wholesale gas markets influencing all energy prices as well as increasing demand for green electricity. Both factors push towards financial benefits for self-reliance and production.

### WHERE'S THE OPPORTUNITY?

Many retail landlords already have connection agreements in place for power supply. The infrastructure is already there, serving their existing sites. And often, the power loads have historically been overestimated at design stage compared to actual in-use consumption. Infact their agreements for power supplies probably outweigh their current requirements.

By enquiring with your power provider, you can see if your supply could be increased for minimal cost. Where there's capacity, there's an open opportunity to seize.

Power connections could be used to charge batteries, buying and selling from the grid at high and low periods, and generating revenue through tariffs offered by National Grid and the Government to help smooth our ever-bumpier grid. The power could be used to run electrical vehicle (EV) charging points; offering both a revenue stream and a reason to drive footfall and dwell time. These same points could be leased out to overnight EV fleet charging, making use of parking spaces when there are no shoppers present. All those EV delivery vans need to charge somewhere and often it's not at HQ.

If we then start to consider fibre and data connections, this opens up another potential revenue stream in edge data centres: small localised high-power facilities. These are popping up across the country and with the anticipated arrival of autonomous vehicles edge data centre capacity will be key to them operating effectively.

With our lives becoming more and more reliant on power and data, if you have access to both, and the space to house an alternative use, there's high potential to develop alternative and additional revenue streams to the traditional retail offer.





## RETAIL APPLICATIONS

Working directly for an owner of 17 retail parks across the UK (6.6million sqft site area and 1.9million sqft GIA) we've recently assessed site-suitability to incorporate 'smart energy' technologies across their portfolio and maximise these sites' return on investment.

The engineering suitability for a range of use classes were assessed, including: on-site energy generation (solar photovoltaic (PV)), battery storage, EV charging (private, public and fleet), last mile logistics, e-mobility hub, edge data centre, and even dark kitchens or vertical farms.

Across the portfolio, two thirds of schemes were identified to have a 'high opportunity', with infrastructure and layout favourable for logistical and mobility use classes, as well as sufficient power capacity at the local electrical substation and building roof space for solar PV.

The potential of these sites to generate additional revenue was compelling and found:

- Potential returns on investment of 70% in 4 years by installing as few as 22 EV charge points and up to 877% over 14 years with 150 EV charge points, based on daily public use.
- From renewable energy generation exported to the grid, a 112% potential return over 15 years, as well as avoiding the equivalent of 3,068 tonnes of CO<sub>2</sub>.
- Indicative rate of return of 13-15% over 25 years for a battery storage installation.

## THE BENEFITS



## ONSITE GENERATION (SOLAR PV)

Electricity consumed on site acts to reduce the amount of grid imports, resulting in a cost saving at c.40p/kWh (anticipated rate for coming months). Typical costs for large, commercial roof-mounted PV are c.£600+ per kWp installed, increasing for smaller installations. Surplus electricity exported back to the grid will receive revenue of c.15p/kWh or higher if aggregated and sold via a power purchase agreement (PPA) (12 month prices, likely due to increase, 20-25yr pricing currently around 12p/kWh).

Installing PV on a retail site provides opportunities to sell renewable energy to tenants. Both the electrification of transport and the growing demand for low and zero carbon operations provide a great opportunity to attract higher value tenants, while returning greater profits on assets. If fully utilised, a PV system would pay back via avoided grid import costs in circa <3 years. If only half of generated energy is consumed on site and the remaining exported, the payback would be circa <5 years. Through the use of Smart Grids we can ensure that all energy is consumed onsite in order to maximise the value of power generated.

## BATTERY STORAGE

The Grid is so constrained by the energy transition, that the UK needs 20GW of energy storage to reach net zero by 2030. That's the amount of energy that would power over one billion sqft of department stores. A number of ownership and operating models can be employed on a battery storage asset, unlocking revenues with different timeframes and risk profiles. Looking at an own-operate model, Hydrock's aggregation partners have a proven track record in delivering around £100,000 per MW per annum. While this serves as a baseline for achieved revenue, it's common to see an uplift of 25-50% on top of this achieved revenue. Alternatively, rental revenue for sites can be in the region of £30k-40k per annum for a project of a good size (e.g. 20MW, requiring roughly 2 acres) and higher for larger battery systems. Battery storage offers an internal rate of return of over 10% in many cases.

<sup>1</sup> Octopus Energy 2021

## ALTERNATIVE USES FOR RETAIL SPACE

Much of our work to date has focussed on the retail warehousing sector. However, the same principle is applicable to major high streets and shopping centres. Underutilised back-of-house areas, where sufficient power and fibre are accessible, present prime opportunities. These installs also produce huge amounts of heat that can then be utilised as 'low carbon heat'. Heat-transfer systems are being employed by adjacent property uses to mitigate one need with another with cost and carbon savings for both parties. In one example, a major UK retail landlord installed such a system to address the need to cool its hotel rooms with the need to heat the health club swimming pool.

Technology is usually front and centre to the solutions – as it advances rapidly, the cost of access is reducing in tandem. Furthermore, the amount of space required to deliver some of these applications can be very flexible and is therefore suitable to a large number of retail environments or shop units.

Fundamentally, there's a great deal of unrealised opportunity in retail portfolios due to the needs imposed by climate change, the acceleration of consumer trends, a global pandemic, and geopolitical tensions. Most pressing is the need to move away from fossil fuels, the growing role of electric vehicles, bringing more 'variable' renewables on-line with greater storage capacity to smooth the grid, and a greater need for energy self-sufficiency. Spiralling energy prices further support any opportunity to generate, supply, or store energy.

For those whose space has been impacted by occupational headwinds, alternative energy solutions can help unlock the path to net zero and provide alternative and additional revenue streams. Decarbonisation can be commercialised: empowering retail landlords to do the right thing by the planet and the bottom line.

## EV CHARGING

Typical costs for a 22kW charge point are around £5k inclusive of infrastructural works and installation, excluding grid connection cost. Higher rate 'rapid' chargers have significantly higher capital costs, with a 50kW charge point costing about £48k, excluding grid connection cost. Several revenue opportunities exist for EV charging, depending on the business model utilised.

For example, public EV charging offers a very attractive return on investment, with a typical payback on investment of around two years.

## FLEET CHARGING

Revenue rates can be increased by ensuring that site infrastructure is enabled for Last Mile Logistics or other transport fleets. The provision of power to charge points can unlock significant returns; with numerous business models for the delivery of electricity at charge points. The Energy Saving Trust surmise that 33% of all urban deliveries can be carried out by cargo bikes or e-cargo bikes. Smaller vehicles such as these have an annual running cost of around £300, compared to £1,450 for a small e-van and £6,100 for a small diesel van. Capital costs are also significantly less for these smaller vehicles.

*“Installed in the UK, PV panels should become carbon negative within five years.”*

Mike Berners-Lee



Meadowhall

# A BLUEPRINT FOR GREEN SHOPPING DESTINATIONS



BY:

**Darren Pearce**  
British Land,  
Centre Director  
of Meadowhall

## WHY LARGE RETAIL ASSETS BENEFIT FROM BEING ALIGNED TO A NET-ZERO STRATEGY

### AN ONGOING JOURNEY

British Land has owned Meadowhall since 1999; seeing the shopping centre through two recessions, the rise of ecommerce, and Covid-19. The sustainability agenda has gathered pace in recent years, but we were already on the path to net-zero.

From the very outset, Eddie Healey—founder of Meadowhall—had the foresight to understand the challenge that the environment faced and consequently the centre launched a Green File<sup>1</sup> with environmental drive engrained throughout. Initiatives and innovation have been a feature at the centre throughout its history. With our joint investor Norges we have the combined expertise and ambition to drive this agenda further with a plan to reach net zero by 2030.

I have seen excellent progress since becoming centre director in 2008, with energy consumption reduced by 58% from 2009-2020 (which equates to power for 1,450 homes per year) and a further 20% energy efficiency improvement planned by 2030.

The centre has always believed in doing the right thing. From the very start, Meadowhall has taken its role in supporting its communities incredibly seriously. Not only in terms of direct social interventions, but in the environment that we all share; and the history and initiatives adopted by the centre testify to this.

So, what makes for a greener shopping centre and why does this benefit both investors and shoppers?

<sup>1</sup> Our Green file is a document with practical advice on how retailers can support the centre's environmental policy and tackle subjects including waste, recycling and energy consumption



# GAME CHANGER INITIATIVES

Several initiatives are already in place or in active discussion that will set us apart in our drive to further reduce the environmental impact of the built environment. These include, but are not limited to:



### ELECTRICITY PRODUCTION

We currently have the largest shopping centre photovoltaic (PV) panels array in the UK (3,418 currently installed) and these generate 15% of the energy required for common mall usage; with further expansion being explored. Onsite generation has so far produced 2.4m kWh since commissioning, comparable to powering 827 homes or 1,325 cars for a year, with savings of 260,000 tonnes of CO<sub>2</sub> equivalent emissions. A wind turbine is also in our net-zero carbon plan with a one MW turbine being considered.

The site benefits from an adjacent biomass plant that produces 30MW electrical and 25MW thermal energy, reduces emissions by 65% when compared to natural gas, and is powered by locally sourced waste wood that would otherwise have gone into landfill. Discussions are progressing with E.ON, who own the site, on installation of a 'private wire' connection to better understand how we could tap into what is a local sustainable source of energy. This would benefit the centre commercially and provide additional security of supply, which is becoming an increasingly dominant consideration. Meadowhall and E.ON are also exploring the possibility of connecting into the district heating scheme, which is a low carbon heating and hot water system supplied by the biomass plant. The key challenge is establishing an economically-viable connection into the system and this may be facilitated by discussions with some of our larger occupiers; a point currently being progressed.



### WATER USAGE

A borehole was drilled in 2008 to access naturally occurring underground water. Through an Environment Agency extract licence, this supplies half the water used at the centre for things like flushing toilets. This saves a considerable amount of energy and chemicals that would otherwise be used to make the water drinkable. The annual saving is in the region of £130k and, so far, 200,000 m<sup>3</sup> of water has been extracted.



### LIGHTING

LED lighting has tangible savings and has been a straightforward update throughout the centre, with the internal lighting being upgraded in 2017-18 to the latest technology as part of the mall refurbishment. Within retail units, the use of LED lighting is a key focus for helping to move the net-zero carbon objective forward, and the tenant fitout guide has been adjusted to encourage this.





#### AIR CONDITIONING

Air conditioning is one of the biggest challenges to a large shopping mall when it comes to reducing carbon impact, but we have two systems in place that have made a considerable difference. Surprisingly to many, centre temperature management is more about cooling than heating due to the impact of body heat. Our Natural Ventilation (NV) system, which replaced a mechanical extract system in the refurbishment in 2017-18, has been an incredibly important initiative; driving a 3-4 degree shift in temperatures compared to those recorded externally, with a 55% reduction in electricity compared to the previous AHU system. We have also installed Oasis air handling units, which are 25% more efficient for cooling and 44% more efficient for heating than those that were in place previously.

These latter enhancements have made for a more pleasant mall environment with customer ratings improving significantly in this area. This raises another important consideration, that undertaking environmental projects in line with standard mall refurbishments makes for a better shopping experience, while also reducing operational carbon and associated embodied carbon impact of the scheme.



#### GREEN LEASES

As a key part of the net-zero carbon pathway at Meadowhall, we are actively working with occupiers to positively reduce consumption and improve the energy performance certificate (EPC) rating for the benefit of all parties. Green leases are now standard at the centre and we are exploring the possibility of incentivising environmental actions from occupiers through positive adjustments to the tenant fit out guide.



#### BIODIVERSITY

Environmental impact, of course, does not just relate to our buildings, but our landholdings too, and there are opportunities outside the shopping centre to improve the quality of the local ecosystem. We have projects that have reduced contamination of water sources, introduced green roofs, planted nature reserves, and improved cycle and walking routes around the site.

#### ENVIRONMENTAL AND SOCIAL IMPACT ALIGNMENT

Our strategy shows that there is no single answer to reaching net zero and our approach will continue to evolve as more innovative solutions become available. We know we have made great progress, but we are by no means resting on our laurels.

One question I often get asked is, are these adaptations actually viable?

The answer is yes, for several reasons. Contrary to the common assertion that environmental improvements are necessary but also costly, they do often make financial sense as the savings in energy usage often pay back quicker than you think. If you could reduce carbon impact and operational costs, why wouldn't you? If you could produce a large proportion of the energy you need while on the journey towards self-sustainability, why wouldn't you?

More than that though, there is a clear and tangible link to creating customer and community loyalty. Shoppers prefer greener places, and there is a close tie between the environmental and social initiatives that we undertake across the centre and understanding the

changing priorities of our visitors. Encouraging the use of electrical vehicles (EV) is one example of how we help our customers reduce their own carbon footprints: we now have 56 EV chargers on site, with a further investment planned.

Retail has had a myriad of headwinds over the last decade and, in order to stay relevant to shoppers, we not only need to develop and run our shopping centres responsibly but demonstrate that we also share their values. That is ultimately why this is such a critical path for investors too.

As a modern shopping destination, we must appeal to customers through an exciting and relevant offer while also demonstrating and aligning our social and environmental objectives with their expectations. Fail to do this and the whole occupational and investment value begins to unravel. Succeed in doing this and you continue to remain both environmentally and economically sustainable. That is why I am proud of the work we have done at Meadowhall to date and excited to continue driving our net-zero carbon strategy forward.

## Meadowhall

### KEY FACTS

**58% OUTSTANDING**

REDUCTION IN ENERGY  
CONSUMPTION 2009-2020

MEADOWHALL ACHIEVED BREEAM IN-USE IN 2018

**3,418 2.4 MILLION**

PV PANELS INSTALLED

KWH GENERATED SINCE INSTALLATION (SAVING 26,000 TCO<sub>2</sub>E)



# SOCIAL IMPACT OR ENVIRONMENTAL IMPACT?

## WHY DELIVERING ON A COMMON STRATEGY PRODUCES BETTER PLACES

### CONNECTED DECISION MAKING

As cities have increased their focus and approaches to addressing climate change, the solutions presented have often focussed on the environment and emissions, with each resolving independently identified issues. More recently, however, some private enterprises, governments and not-for-profit organisations have started to identify and develop strategies that simultaneously address a range of environmental and social issues, and retail developments and landlords are playing their part too.

Food security, biodiversity, improving air quality and sustainable energy production are some of the topics being addressed within retail developments. Moving beyond sedum-covered rooftops and building on existing measures to improve public transport and cycling infrastructure, new strategies have adopted a broader, more connected vision delivered through collaborative and community-driven approaches.



BY:

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Head of ESG Research,  
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The pandemic reminded everyone of the importance of greening urban spaces. Not only for the environment, but also as a means of delivering wellbeing for residents, workers, and visitors. In turn, they too have become more engaged and informed on the subject. This means that schemes must look beyond disconnected tree planting programmes and small floral displays to more sophisticated landscaping designs that also consider biodiversity.

It's clear when such schemes fail to use a joined-up approach. The Marble Arch Mound, sited at the end of London's Oxford Street, offers a cautionary tale of disconnected political decision-making. Costing around £6 million to build and a further £660,000 to dismantle, it was aimed at drawing shoppers back to the legendary street. Instead, it attracted broad criticism for being neither environmentally sustainable nor, through its originally planned ticket prices, offering any social benefit. That Westminster council, Conservative since its inception in 1965, is now controlled by Labour has, by some, been attributed to voters' retaliation for the poor decision-making relating to the Mound.

### BREATHING SPACES

Two examples of early proposals that have garnered better public responses can be found further north.

Firstly, in Stockton-on-Tees, the demolition of the Castlegate shopping centre, acquired through compulsory purchase (CPO) in February 2022, will make way for a new public park and waterfront development that will provide a link between the high street and River Tees. The scheme also includes measures to reduce vehicle numbers from an adjacent road, as part of traffic calming measures, which should reduce local air pollution levels.

Secondly, in Nottingham, the former Broadmarsh Shopping Centre is set to follow a similar redevelopment. The site, and partially demolished shopping centre, were returned to Nottingham City Council in 2020 after the collapse of operator Intu. Following the abandonment of a series of schemes to construct new shopping centres on the site, the City Council invited Thomas Heatherwick to reimagine the space.

The focus of Heatherwick's scheme is a new public square that will feature an oak sapling, transplanted from nearby Sherwood Forest, while the wider landscaping scheme proposes to include sections of the partially-demolished structure. The plan would support both the Council's Breathing Space policy—which aims to increase green space in the city for the physical and mental wellbeing of its residents—and their ambition to be the first among UK cities in the race to reach net zero.

<sup>1</sup>[www.savills.com/reimaginingretail](http://www.savills.com/reimaginingretail)

Given the general need to consolidate retail footprints in town centres, neither shopping centre was viable as a retail place, but the question it raises is a relevant one: what do you do with the space to provide better value and bring people back?

Repurposing to alternative uses is a key consideration, but the solutions can also be more extreme because there still has to be demand for those uses<sup>1</sup>. The key ingredient to these two schemes is the recognition of the need to take a step back to take a leap forward. These town centres, and others, need to better appeal to people to live, work, and play within them, but in the current state of decline why would they?

Public parks improve the quality of the environment and the social value of the space. In this post-pandemic world those two qualities have never been more important, particularly as so many lack access to private outdoor space, or they have become more accustomed to exploring their local neighbourhood spaces. Make places 'nicer' and the economic regeneration will happen.



CGI: Broadmarsh Scheme, Nottingham



CGI: Broadmarsh Scheme, Nottingham



### PUBLIC AND COMMUNITY ENGAGEMENT

Had retail locations not faced the well-documented challenges of the last five to ten years, would these schemes have been possible?

The fact that Stockton Council were only able to secure the land for the new waterfront park with a CPO suggests not. It seems only public agencies are able to address the changing high street with a scheme of this type, which places both social and environmental agendas ahead of commercial gain. It's unlikely that a private landlord would have demolished their own income-generating building to make way for a new park that is less likely to create the same financial return.

Even so, these schemes can come at a high price for councils. For the first twelve months following its return to the city, the Broadmarsh site cost £980,000 in management and security charges. Not an insignificant fee for a council already facing severe budgetary challenges.

For those councils without the potential spaces or finances to create such transformations, smaller experimental schemes can deliver positive impacts—and be the start of more ambitious plans.

Mercato Metropolitano (MM) is one such development. Launched in 2017 and with four locations across London and a forthcoming branch in Ilford, MM is a sustainable community market where each site offers different food retailers and community engagement activities. The organisation is underpinned by a ten point manifesto that addresses issues of circular design, outlines their inclusive economic benefits, and supports well-being. All plastic is banned on their sites, including any that visitors might carry with them. While taking an ultra-strict approach to waste and plastics, they are equally focused on food insecurity—including the recent increases in the cost of food—and the miles travelled that—through their suppliers—their urban farming focus seeks to address.

While Nottingham hopes to be the first UK city to reach net zero, Copenhagen is hoping to be first among all cities globally. The Danish capital has included urban food production in its net zero strategy, and aims to provide locally grown, organic produce for all of the city's thousands of kitchens, which serve 70,000 meals a week to nursery schools and nursing homes. The city also hope this project will help to improve and support the health of its citizens and reduce healthcare needs. And for those not fed by these kitchens, the city regularly publishes their plant-based recipes on their website. Although Scandinavian cities have an established reputation for high standards of wellbeing and liveability, and for combining innovative and experimental proposals with ambitious government policies, this is no longer their preserve.



Singapore is well known for the inclusion of planting in new developments, and generating some impressive design responses in the process, but with its high dependency on food imports the city has started to look at options for increasing its food production. By the end of the decade, the city state aims to have reduced its dependency on food imports from 90% to 70%. The recently redeveloped Funan Mall in the city's Civic District has established a 5,000 sqft urban farm at roof level. Contributing to, rather than being the singular solution for, the issue of food insecurity, the garden is managed by Edible Garden City: a social enterprise that works in partnership with similar large developments and offer educational workshops and food boxes, available to the wider community. Besides supplying produce to a rooftop restaurant, the space is open to shoppers and the wider public and forms part of their urban farming network.

### TWO SIDES OF THE SAME COIN

From urban farming to urban retrofit, each of these case studies offers a glimpse of the potential for retail developments to address environmental targets while offering social benefits when creating new or redeveloping existing spaces. As cities race to claim the 'first to net-zero' title, their approaches to resolving the complex series of challenges requires a multi-faceted and collaborative approach between different agencies and the community. While there are opportunities for investors to develop and deliver their ESG agenda through such schemes, it's clear that governments at different levels play a pivotal role; both through policy development and through their own action.

Social and environmental improvements and their benefits are tightly interwoven into the future of our places, serving a common goal. Being green is of course important, but community engagement and loyalty is what makes a place—and social improvements with a green edge will have the strongest results. As such, both need to be implemented through a common strategy, whether in local neighbourhoods, in shopping schemes, or in town centres—and with a joined-up approach between public and private stakeholders.



*“Social and environmental improvements and their benefits are tightly interwoven into the future of our places, serving a common goal, and both need to be implemented through a common strategy.”*



# WHAT

## IS THE INDUSTRY DOING?

### WHAT ARE LANDLORDS IN UK & EUROPE DOING TO REDUCE THEIR CLIMATE IMPACT?

As retail investors across Europe are increasingly looking to improve their ESG credentials, we explore how several landlords are putting strategy into action. This includes large scale renewable energy generation or energy reduction strategies being implemented in major shopping centres (e.g. Ellandi, Nuveen and Sonai Sierra). Several investors go even further and believe that a scheme can only be truly sustainable if all of their retail occupiers also have an ethical and environmentalist backed approach across their supply chain (e.g. Green Pea in Italy and ReTuna in Sweden).



nuveen



● GreenPea



ELLANDI

While some energy improvements are extremely costly, other solutions through modest capex can reap significant benefits, both from operational expenses but also the building's energy performance. It's possible to move up the energy performance certificate (EPC) ladder by changing the light bulbs and, although this is unlikely to be enough to reach the grade B required by 2030, it remains an important step change.

Ellandi have installed smart technology LED lighting solutions to replace existing those that have reached the end of their natural life in car parks, malls and back of house areas. In the Strand Shopping Centre in Bootle LED lighting has been installed in the 560 space multi-storey car park, with savings in electricity of circa £55,000pa and a three-year payback. At the Marlands in Southampton, 705 mall lights have been replaced with LEDs, which consume 90% less energy and have a lifespan 40 times that of non LEDs. The new LEDs were installed alongside automated emergency lighting, as well as a wireless control system using occupancy and daylight sensors. Both projects have delivered financial savings to occupiers as well as for facilities management as the new lighting is more reliable and requires less maintenance.



In terms of supporting the power needs across their portfolio of Community Centres, Ellandi are working with sustainability consultants Syzygy to implement installation projects that generate solar PV electricity. The Trinity Centre in Aberdeen has their largest PV system of 150kWh located on the centre's roof. Since installation this has generated 845,000kWh of electricity and an average annual net income return of 15.7%. The electricity generated is the equivalent to the yearly electricity usage of 221 average UK households and has saved 325 tonnes of CO<sub>2</sub> (the same as planting 1,844 trees).



# nuveen

One of the key principals in moving towards a net-zero future is not just the way we source energy, but the way we use it and minimise its wastage. In Nuveen's UK Swindon Outlet Mall, artificially intelligent technology has delivered substantial energy and carbon reduction at low cost via a dedicated smart energy programme. Continual computer monitoring of energy use observes over eight million energy data points and has identified when equipment was on unnecessarily or needed maintenance. This has resulted in a 36% energy use reduction and delivered over £600k savings to tenants. Solutions like these will be central to achieving operational energy efficiency ambitions and Nuveen are rolling these out across their portfolio.

In the recently redeveloped St James Quarter in Edinburgh, Nuveen have diverted 95% of site materials from landfill with a significant proportion of concrete being recycled and reused within the new scheme. Good design has been adopted to optimise natural light and ventilation to reduce operational carbon. This has helped Nuveen achieve an Excellent BREEAM In Use Certification.



Having low carbon credentials is one thing, but the ethos also has to continue to run through the lifeblood of the management team. The Islazul Shopping Centre in Madrid has the highest BREEAM performance in Spain, which was achieved in 2012. However, this accreditation is also determined by how a building is managed throughout its life, meaning that management must continually engage with sustainable actions. As such, the management team are always looking for new ways to improve ESG credentials under the umbrella of the 17 sustainability goals of the United Nations.



Solar generation clearly varies in potential in different parts of Europe its performance at different times of the year. With almost 50 shopping assets owned or managed in Southern Europe (Portugal, Spain, Italy and Greece), photovoltaic (PV) has been an important consideration for Sonae Sierra in reducing their energy import costs and security of supply when powering their schemes.

However, maximising the solar array on the roof of a shopping centre can be at odds with limiting the need for powered lighting systems and the gains from natural light – both in terms of limiting environmental impact, or providing a positive shopping experience. Sonae Sierra have been utilising cutting edge technology that incorporates photovoltaic glass into skylights. The first large-scale glass installation project with solar sensors was carried out at the Portimão Shopping Center in southern Portugal. Glass was installed with solar sensors with a generation capacity of 30,500 kWh/year. The installation has allowed a reduction of 20tCO<sub>2</sub> each year obtaining clean energy at a 70% lower cost.



Portimão Shopping Center, Portugal



Increasingly sustainability is being engineered into building construction and fabric, but how can landlords follow this through with its occupiers? One of the best examples of a sustainable retail building is the Green Pea Shopping Mall in Turin, which opened in December 2020 from the investors behind Eataly. The eco-friendly shopping hub occupies 15,000 sqm of retail space across five floors and only offers sustainable products "created in harmony with nature" related to energy, movement, interior décor, clothing and leisure; the fashion floor is devoted to sustainable fashion brands such as Timberland, Patagonia, Ecoalf, North Sails, K-Way, The North Face, Napapijri, and Re-Hash.

As well as sustainable interiors, the building is made only with recyclable materials such as steel, iron and glass and can be completely dismantled. Its wood is from local forests that were destroyed during a storm in 2018 and the interior floors are made with recycled wood. The building is painted with Airlite: a paint that reduces air pollution by 88%. In addition, more than 87% of its hot water is generated by a geothermal plant and more than 88% of its thermic energy and almost 90% of its electric energy for lighting come from renewable PV sources.

The retail sector needs to drive efforts to reduce waste and encourage recycling and ethical sourcing. Based in Sweden, ReTuna Återbruksgalleria is the world's first recycling mall where everything sold is recycled, reused, or organically and sustainably produced in a climate-smart way. Old items, too, are given new life through repair and upcycling. In 2018, the mall turned over €1.2million in recycled goods. Furthermore, ReTuna is more than just a marketplace and aims to be a public educator by organising events, workshops, lectures, theme days, and more-all with a focus on sustainability and community benefit.



The mall is owned and run by EMM, a municipality-owned company tasked with running competitive organisations in the energy and environmental sector, rather than a traditional retail landlord. However, with EEM's ethos to deliver optimal benefit to customers and residents, with minimal impact on the environment, this could be a good approach for local authorities that have been increasing their stakes in shopping centre assets in recent years.

Currently, these ambitious solutions are not suited to all retail environments. However, most retail places could do with incorporating some of the principals of Green Pea or ReTuna into their schemes, which will help improve sustainability goals, deliver on social value, and appeal to a growing body of ethical consumers.



# CHAPTER 3

## GREENER DEVELOPMENT

RETHINKING HOW  
AND WHEN TO BUILD





# REBUILD OR RETROFIT: THE ENVIRONMENTAL CASE



BY:

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## HOW SHOULD THE PRINCIPALS OF CIRCULAR ECONOMY AND WHOLE LIFE CARBON INFLUENCE OUR DECISIONS ON HOW WE IMPROVE RETAIL ASSETS?

### WHOLE LIFE CARBON – THE BASICS

Traditionally, the property industry has measured the performance of buildings using compliance tools, such as Energy Performance Certificates (EPCs), because they've been the most widely understood and accessible metric, and the industry standard for comparison. The industry has focussed on understanding and reducing the operational carbon and cost without looking at reducing material use at the same time. Moving towards a zero-carbon future has clarified our thinking on different metrics and methodologies. The industry now looks at how buildings are made, how they are operated, and how they can be re-used before their disposal.

A net-zero carbon building is where the amount of carbon emissions associated with a building's product and construction stage (up to practical completion) and its annual operational energy is zero or negative. A net-zero carbon building is highly energy efficient and powered from on-site and/or off-site renewable energy sources, with any remaining carbon balance offset (UKGBC Net Zero Carbon definition).

This is where Whole Life-Cycle Carbon (WLC) emissions fall into place as WLC provides a true picture of a building's carbon impact on the environment. WLC emissions are operational and embodied emissions over a building's entire lifecycle. Embodied carbon is

the amount of carbon emitted during the construction, use, and end of life stages of a building, e.g. the extraction of raw materials, the manufacturing and refinement of materials, transportation, installation, and the use of a building over its entire life, including its demolition and disposal. Operational carbon is the amount of carbon emitted once a building is in use. Real estate is responsible for 39% of annual carbon emissions – operational emissions account for 28% and the remaining 11% is attributed to embodied carbon of new construction; or to put it another way embodied carbon accounts for almost 30% of property emissions.

Although both the refurbishment of existing buildings and the construction of new ones have the potential to significantly improve the life cycle impact of buildings, it's not always a clear-cut choice between the two options. And this is applicable to any type of use, i.e. office, retail etc.

### THE BENEFITS OF REUSE

When is it better to reuse and when is it better to redevelop? A major refurbishment can reduce operational carbon emissions considerably by upgrading the fabric and providing equivalent building services to newly built standards. At the same time, it can cut embodied carbon emissions significantly because a big part of the embodied carbon emissions of a new build are associated with elements such as the sub structure, upper floors, roof, and frame, which should be retained at a major refurbishment.

On the other hand, new buildings have a better potential for improving operational efficiency as the result of better design and less constraints, i.e. form factor, window-to-wall ratio, passive design measures, energy efficiency measures etc., while new standards and tools can reduce the embodied carbon emissions.

Carrying out a WLC assessment can be used as a tool for assessing the carbon impacts of design options, alongside other factors such as cost, to select which one is more carbon efficient. For instance, measuring the upfront carbon at each stage of the construction will



involve breaking a building down into its elemental parts and applying carbon emission factors to the quantities of each element. Take, for example, a building's superstructure: a conventional frame would result in emissions of 500 kgCO<sub>2</sub>e/m<sup>2</sup>, with a frame that includes timber would result in 350 kgCO<sub>2</sub>e/m<sup>2</sup>, providing significant savings. Following such a methodology, one can assess whether a refurbishment or a replacement is the more environmentally and economically responsible option.

A WLC study for a new build 320,000 sqft shopping centre in Hampshire, produced by Sturgis compared three scenarios over a 60-year period:

- 1 A new build where at years 20, 40 & 60 there will be a major refurbishment where the main structural elements are retained.
- 2 A full new build at years 20, 40 & 60 with all new materials.
- 3 A full new build at years 20, 40 & 60 that includes for a substantial proportion of on-site recycling of structural members, cladding and other materials.

\* Note that at years 10, 30 & 50 there will be a partial refurbishment for all scenarios.

Overall, the findings suggest that the first scenario is the most efficient in carbon terms.. The difference between the first and the second scenario, i.e. a refurbishment cycle over twenty years against the full demolition and rebuild is 59%, whereas the difference between the first and recycle and rebuild is only 23%. This clearly shows the carbon benefits of designing for and undertaking whole-scale recycling.

For the last few years, the Greater London Authority (GLA) have been investigating how to best approach WLC. Today, they're progressing WLC assessments as part of their planning policies for all developments. Several other local authorities in the UK are following GLA's example and are also now implementing such policies. In addition, due to the significance of this issue, members of the property industry have written Part Z<sup>1</sup> and its accompanying Approved Document Z as a proof of concept for the regulation that's needed in the UK. This has now gained traction and has been introduced to Parliament. If enacted, Part Z would ensure that embodied carbon is assessed on all projects, as part of a comprehensive whole life carbon assessment.

<sup>1</sup> Part Z, Whole Life Carbon (<https://part-z.uk/>)



CIRCULAR ECONOMY MATTERS

The evidence is clear: if we're to stay on a net zero carbon trajectory for the for the lifecycle of buildings, we must change our approach to design, material selection, and use. We need to think of buildings as an evolving process, we need to change our attitude from 'take-make-use-discard' to 'remake-reuse', and we need to design for dismantling. In other words, we need to facilitate the transition towards a circular built environment.

Circular economy stands in contrast to our current linear system; where materials are mined, manufactured, used, and thrown away. It describes an economic system based on business models that replace the 'end-of-life' concept by reducing, reusing, recycling, and recovering materials in production, distribution, and consumption processes.

Retailers and their buildings are no exception to this. Whether during refurbishment or redevelopment we need to consider what materials can be recovered and reused. In the recently redeveloped St James Quarter in Edinburgh, Nuveen have diverted almost 99% of site materials from landfill, with a significant proportion of concrete being recycled and reused within the new scheme. Good design has also been adopted to optimise natural light and ventilation to reduce operational carbon. This has helped Nuveen achieve an Excellent BREEAM In Use Certification.

Circular economy principles can also be applied to retail products. By producing fewer goods that are more robust and last longer, and in turn renting or reselling these, the use of natural resources is reduced as products become the resources. Such principles will become more and more common when regulations that forbid the destruction of goods that haven't been sold come in place – already legislated for in France on January 2022. Similarly, such principles can be applied to the components of retail buildings where fitout components like floor or ceiling tiles can be rented or re-sold at the expiry of the lease instead of ending in landfill.

Designing with future flexibility and adaptability in mind, and building in layers, is also key. Our designs should assess the ability of the development to accommodate change, the frequency of reconfiguration and remodelling, and how to avoid a premature end of life for all components. Designing a retail unit or a shopping centre to be easily adaptable to a different type of use in the future, such as a commercial office or residential space, from the outset is essential to ensure the carbon impacts of such alterations (fabric, services, layout etc.) are not significant.



INNOVATIVE THINKING

Our industry doesn't have all the solutions readily available. Technology and innovation technology have a great role to play in this transformation, as they will help us to learn and develop. For example, 3D printing could be used to print a building's components and, as such, reduce significantly material wastage. Meanwhile, printers could be deployed on or near to the site and consequently reduce transport emissions. Artificial Intelligence can improve efficiencies to drive energy consumption down; by inputting data on equipment energy usage, indoor and outdoor temperature it can precisely determine the ideal set points and schedules for heating, cooling, and lighting equipment, and provide great savings.

Of course, the argument for rebuilding can go the other way. Many retail schemes are unfit for either future retailing requirements, or the space requirements of alternative uses where repurposing projects are being considered. We know more about how properties should be designed for the next fifty years than we did fifty years ago and, some would argue, correcting the mistakes of the past and make more efficient places requires redevelopment. However, if we always take this approach we will be adding to the problem not solving it and who's to say in half a century we'll have got it right? Fortunately, many retail developers and investors are starting to think through the lens of circularity, but the adoption of whole life carbon principles are very much in their infancy and need to be more widely implemented.

Climate change has made us think about how we design, build, and operate our buildings in a different and more holistic way and emphasised the need to achieve net-zero emissions. As such, it's raised the challenge and a considered and strategic approach is now required. Our response can't be fragmented and we should follow whole life carbon and circular economy principles when designing our buildings to ensure their useful lifetime and resilience are extended.

***“Embodied carbon of new construction accounts for almost 30% of property emissions; as energy efficiency and grid decarbonisation drive down operational emissions the balance will shift even further to embodied impacts”***

OVERVIEW OF CARBON EMISSION SOURCES ACROSS THE REAL ESTATE INVESTMENT LIFE CYCLE

	DEVELOPMENT & CONSTRUCTION	OPERATION	END OF LIFE
EMBODIED CARBON	Raw materials supply ⋮ Transport of raw materials ⋮ Manufacturing ⋮ Transport ⋮ Site works	Purchase of goods and services (M&E and property management services) ⋮ Fit-out works ⋮ Refurbishment works	Deconstruction ⋮ Transport ⋮ Waste processing ⋮ Disposal
OPERATIONAL CARBON		Energy ⋮ Water ⋮ Waste ⋮ Refrigerants (fugitive emissions) ⋮ Transport	





# REBUILD OR RETROFIT: THE FINANCIAL CASE



BY:

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## IS IT CHEAPER TO REDEVELOP, OR ARE THE ECONOMICS MOVING IN FAVOUR OF REUSE?

### RETAIL SPACE NEEDS TO ADAPT

It's a question that faces all investor landlords with aging stock: whether to replace or refurb it. It's a fundamental economic dilemma as much as a moral one, but prior to the ESG agenda becoming central to real estate decision-making, the economics would invariably win. However, a sea of change is now seeing economic and environment priorities becoming more aligned, which means that landlords may start to have more options when it comes to the future of their retail assets. But is it just about the 'bang for buck'?

To repurpose, reposition or improve defunct retail space, it has often been the case that it is more financially rewarding to redevelop a site than adapt it. Retailer's space requirements and consumer demand, particularly in shopping centres, have evolved several times in the last few decades; quickly dating some relatively young schemes and highlighting their inflexibility for adaptation.

Even recently, when retail repurposing has become a hot topic due to significant occupational headwinds in some quarters, rebuilding has often been seen as more viable because redeveloped schemes are able to seek value from expansion and densification. Retrofitting on the other hand, can require significant compromises due to the existing building configuration and structure that tinkering with can, at times, feel like driving a square peg into a round hole.

However, this is not always the case. Retail park and larger shopping centre units tend to lend themselves well to adaptation, whether to fit out the needs of a new tenant, or to upgrade environmental performance. Small high street units are however, an entirely different proposition.

So, how does refurbishing or rebuilding within the retail sector work in practice?

### TO REBUILD, OR NOT TO REBUILD...

From our experience, any new building stock in the retail market is high performing from a sustainability perspective; although the embodied carbon remains considerable. But, how many brand new-build retail schemes are actually being constructed? In the UK, the number of new significant retail schemes in the last decade can almost be counted on one hand.

Instead, most retail development is happening to existing schemes. Repurposing redundant retail stock is starting to gather pace, with different places seeing units reconfigured or wholesale demolished and rebuilt. Department stores have typically lent themselves well to the former—though layout is often a challenge—while shopping centres or high street blocks are likely to see more significant redevelopment and, often, with a higher density of uses when complete. But these schemes all have one thing in common: scale.

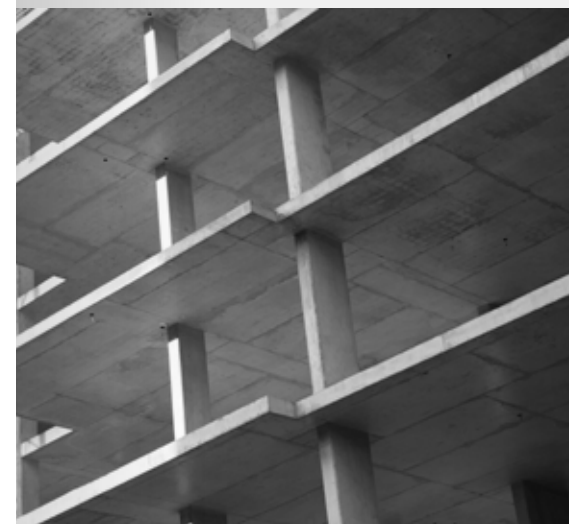
For large sites, rebuilding usually wins out because of the opportunity to create something more in-tune with modern requirements, allowing a more radical change in design and use, and increasing the overall footprint. It's no coincidence that some of the retail conversions we've seen come out of the ground most quickly have added further floors on top to make the redevelopment stack up financially.



When building a new unit from scratch the building can be meticulously designed to accommodate renewable energy, operate efficiently and still meet the needs of the tenants and perhaps commanding higher rents because the overall package is significantly better than what came before it.

On the other hand, taking the decision to knock down and rebuild is not only a moral dilemma but one that the industry is waking up to because of embodied carbon. The main materials for new developments (steel and concrete) generates a lot of embodied carbon, with concrete alone causing eight per cent of global emissions; approximately half of the whole-life emissions of a building could come from the carbon emitted during the construction and demolition.

ESG, while a key motivator in the debate, isn't the only factor however. The financials involved in construction have begun to swing the economics away from redevelopment, with labour costs, shortages, and, particularly, the cost of materials proving major concerns. Early 2022 saw timber almost double the cost in 2015, while steel and concrete were up 80% and 40% respectively over the same period. This means that the build costs are moving more in favour of retrofitting.





CHALLENGES TO RETROFIT

Reusing buildings does have several economic benefits, such as no demolition costs, a quicker programme, and less time through planning. Environmental benefits include extending the buildings life and reducing its embodied carbon and, while there may currently be limitations on what can be done from a sustainability perspective, in terms of unit fitouts and operational carbon, technology is rapidly evolving to create more efficient and more recyclable materials.

However, according to the Royal Institute of Chartered Surveyors (RICS), 11% of UK construction is on fitouts and buildings may have 30-40 fitouts during their lifetime. That's a lot of material to throw away and perhaps it's the lack of adaptability of space that requires such drastic alterations. Either way, landlords have traditionally—and perhaps casually—undertaken refurbishments as often as necessary to secure tenants. The ESG agenda is rapidly putting these issues into the spotlight. And, of course, if you reduce the number of fitouts you reduce the overall cost of future capex.

There's no getting away from the fact that some improvements are incredibly challenging without making major costly structural adaptations. As a prime example of the difficulties faced, we've recently advised on photovoltaic (PV) installations on out-of-town retail parks. When retrofitting PV panels onto existing stock there are a number of variables: can the frame take the load, does the orientation of the building generate sufficient power, and, significantly, who pays for this and who gets the direct benefit?

It's still the case that the landlord usually pays for the design and installation of renewable energy sources such as PV panels, yet tenants also see the benefit. If you couple this with the tenant wanting the landlord to maintain the system and for the premises to become Internal Only Leases there's an impact to ownership costs and investment. Landlords may see this as a no-win scenario. When you factor in that the majority of out-of-town retail parks are held by large landlords who group sites together in portfolios, unless there's a site-wide campaign, one unit alone will not allow the portfolio to be classed as green.

ESG VERSUS CAPEX

This question is increasingly being decided by one big factor: the climate crisis. Before any financial case can be understood, investors should first be appraising their retail standing assets against their ESG strategy—if they have one—and, as a minimum, against the UK Government's Net Zero Carbon strategy to eliminate emissions by 2050. This can be done by undertaking an ESG due diligence appraisal of a retail building or portfolio to help understand the current ESG verses the potential performance (i.e. the ability to influence).

The EPC challenge faced by landlords is also a considerable headache if they're to reach MEEES grade B by 2030. We estimate that the cost to upgrade a retail shell from an E to a B is likely to be around £40-80 sqft (figure 1). This is a significant challenge for landlords with huge estates and the capex is massive, but equally for owners of small shops (where, in fact, a larger proportion of 'problem' stock lies) this presents an almost impossible proposition.

EPCs are, in many ways, an unwelcome distraction from other more beneficial ways of addressing the problem. Other aspects to consider are energy in-use and carbon emissions, energy source, and climate change exposure. The focus here is understanding the operational carbon emission as a metric. Once this is understood, it can be modelled using tools such as the Carbon Risk Real Estate Monitor (CRREM) to determine the carbon emissions relative to its stranding risk—that is, the chance of a building becoming untenable and, therefore, devalued on the net zero carbon pathway to 2050. The most convenient times to address issues of operational carbon will usually be at lease end, plant replacement cycles, or other planned refurbishment works. However, the key consideration in identifying the optimal time to make these interventions by balancing cost, access, technology advances, and the decarbonisation targets with the excess emissions released in the interim period.

Furthermore, a poor-performing building doesn't necessarily mean knock it down and build new. The next steps are to look at what can be done to influence the building verses the embodied carbon impact of redevelopment. With this in mind, instead of just comparing the £/sq ft between new build and retrofitting a development when undertaking a viability assessment, investors really need to start considering Whole Life Carbon as part of the viability. It won't be long before the government wakes up to embodied carbon legislation and what the industry is already doing itself.

GREEN SHOOTS

Encouragingly, we see many responsible landlords improving their sites, shared areas, and demise under their control by investing heavily in sustainable measures. Electric charging points, LED lights, and removing gas are becoming standard for many. As a sector, retail landlords and retailers are already heading in the right direction. Common parts of retail parks and shopping centres are greener than ever, but there's still a long way to go.

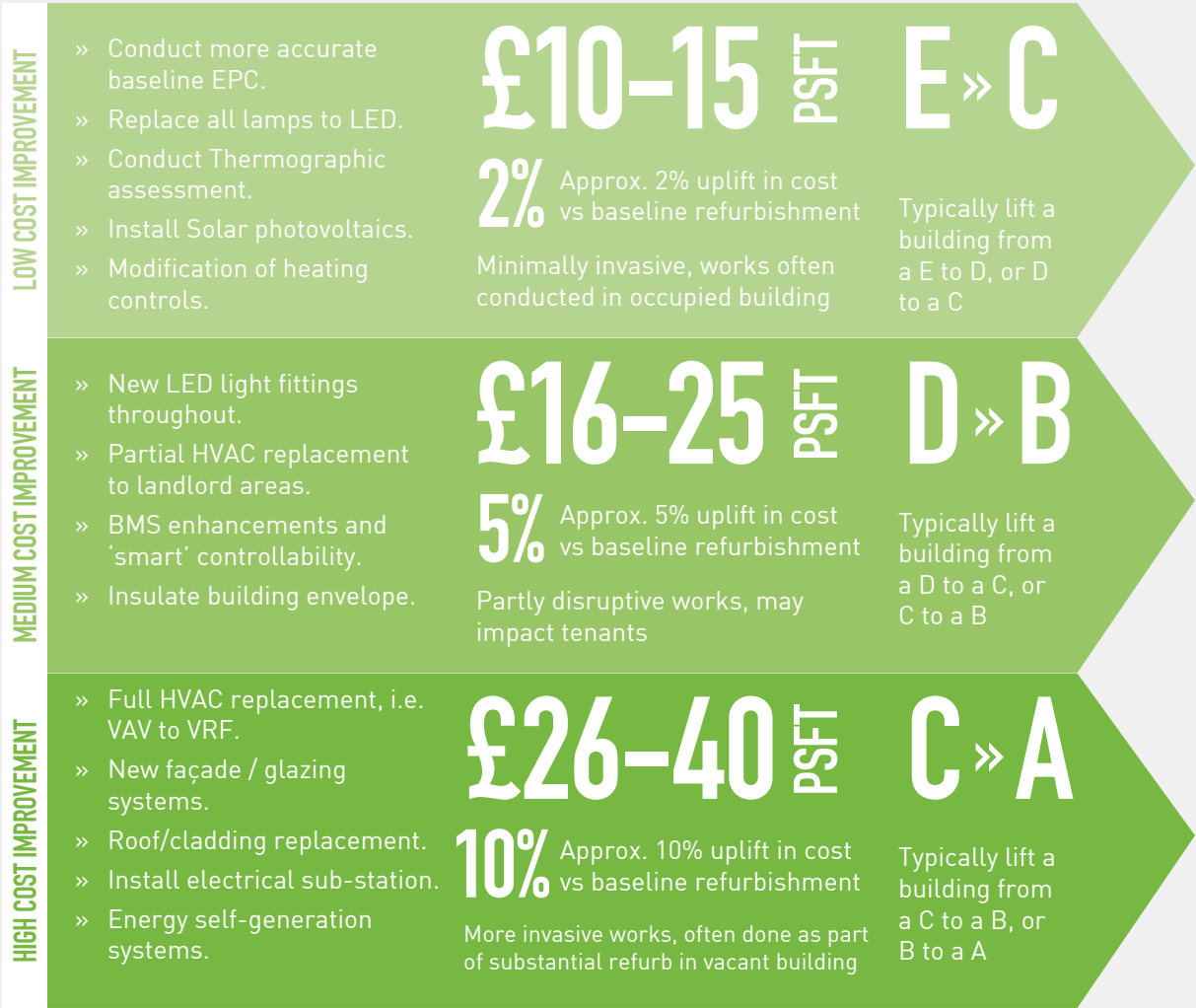
Tenant fitouts, too, are increasingly efficient. We're seeing clauses in leases and agreements stating the premises must meet certain standards. Retailers know consumers want to see green credentials. But, in the same way that landlords can't simply fund green incentives on the tenants' units, retailers are unlikely to commit funds to install complex systems into a unit they don't own. Why would a retailer introduce a risk and

maintenance factor to their premises for the landlord to get the benefit? There'll be a monumental move to improve premises going forward and when a tenant is taking a long lease there's more incentive for both parties to invest as everyone shares in the benefit.

Ultimately, there's no straightforward answer whether to demolish and rebuild or retrofit. The financial case, therefore, should be predicated on the ESG Strategy. In many cases, the more environmentally-friendly option is to retrofit a building using materials that are as sustainable as possible, while at the same time maximising its energy efficiency. However, it's difficult to bring an older building up to the levels of efficiency that are possible using cutting-edge technology in a new build.

Furthermore, it's far from clear how the industry will improve the 'forgotten stock'—the 75% of UK retail real estate that isn't owned by large institutional investors—is under multiple ownership, is often underinvested, and lacks both the capital and information required to make greener decisions.

EPC LADDER: COST IMPACT SENTIMENT FOR EPC IMPROVEMENT (RETAIL BUILDING)





# RETAIL PARKS

## BUILDING EUROPE'S MOST SUSTAINABLE RETAIL PARK PORTFOLIO



BY:

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Managing Partner,  
Mitiska REIM

**Lynn Panckoucke**  
Investment  
Analyst, Mitiska  
REIM

### WHY DEVELOPING WITH AN ESG LED ETHOS IS A SOUND INVESTMENT CHOICE

#### OUR APPROACH TO DECARBONISATION

Over the past 5 years, it has become impossible to ignore the importance of ESG factors both in retail and real estate, with sustainability moving from a nice-to-have to a must-have for all stakeholders.

Today, sustainability and ESG, alongside location, occupiers, building scale and building quality are now the key factors in property value and performance, and this importance will only increase over time. From a fund management perspective, the drivers are primarily to protect the medium to long-term value of the portfolio, while adding value and acting in a socially responsible manner.

We recognise that achieving sustainable urban growth is an essential and pressing issue. This is not without its challenges of course, but considerations concerning ESG factors play a crucial role in being a responsible fund advisor, and are a key driver in creating long-term value for all our stakeholders and for society by making our business and our managed assets future-proof.

As part of our commitment to achieve net-zero carbon across our real estate portfolio by 2035, we have deepened our net-zero strategy and goals as we believe carbon counting and the focus on carbon will define the decade ahead.

Achieving net-zero for the industry will not be a walk in the park. However, we believe that by pursuing change and embracing innovation, our industry can decarbonize and move from being part of the problem to being part of the solution. To close the huge gap between current emission levels and the reductions needed to meet the Paris targets, the industry must act now.

In the past 10 years Mitiska REIM has built, on behalf of funds, a portfolio of 91 properties representing 1,100,000 m<sup>2</sup> gross leasable area across 10 European countries. We're growing and developing quickly and recognise the need to minimise environmental impact while optimising financial returns. This is an entirely possible proposition. In October 2021 we opened Europe's most sustainable retail park, Malinas, in Mechelen, Belgium, using a model we plan to roll out to other developments. So, how are we transforming the out-of-town real estate market?

#### BUILDING SUSTAINABLY

A key starting point is to design and build sustainably from the outset. While people may believe that creating a sustainable building is more expensive, it is in fact significantly cheaper than attempting to put "green lipstick" on an existing building.

In order to incorporate sustainability in all aspects, it is critical that all parties involved in the construction – architects, engineers, contractors, and developers – get together early in the process so that there is a clear consensus from the start that creating a green building is the main goal. Not doing so means that projects may not be able to take advantage of some of the most powerful aspects of green design, such as passive components. These passive components include site selection, such as locating new buildings near brownfield sites and mass transit, and factors such as orienting buildings east-west for shading and thermal insulation.



There are a number of useful tools to ease the process. For example, certification guidelines such as BREEAM or LEED can help in this process as well as BIM (Building Information Management) modelling to create a detailed digital representation of the project can help with clash detection, cost calculation, procurement, information gathering, communication, etc. Moreover, all building information is stored digitally forever in BIM which is a helpful asset management tool in the future, should the building need to be refurbished or demolished.

When it comes to design, buildings should be designed to minimize embodied and operational carbon. For embodied carbon, one can look at the materials used, drawing information from green labels, the raw materials used, the production process, and transportation needed.

Perhaps more important is designing a flexible building that could be used for different purposes in the long run. The flexible, modular design of retail parks, urban logistics and multi-let light industrial, which we collectively call 'convenience real estate', is a good example. To minimize operational carbon, we have opted for a net-zero operational design (solar panels, electric heating and cooling systems, making optimal use of daylight, no gas etc.).

During construction, we look at different transport modes, optimization of deliveries, minimization of transport, or generation of green electricity on-site, just to name a few. To achieve this, good communication with neighbours, the city and other stakeholders is important to get everyone involved and onboard.

By making good sustainability choices early in the process, the benefits are reaped through lowering operational carbon and by making the retail park net-zero carbon, generating onsite energy, making full use of daylight, removing the use of any fuels, etc.



Malinas Retail Park has an expected energy consumption of only 116 kWh/m<sup>2</sup> GLA, and plans to use 100% renewable energy. The park does not consume any fossil fuels. About 65% of all electricity comes from the solar panels installed on the roof that generate approximately 2.3 MWh, as well as a battery storing the generated electricity. The remaining electricity is renewable electricity from the grid.

Thanks to the onsite energy generation through the solar panel installation and the use of 100% renewable grid energy, Malinas achieves a 0 kgCO<sub>2</sub>/m<sup>2</sup> greenhouse gas intensity. As a result, the CRR<sub>EM</sub> tool indicates that the retail park has a greenhouse gas consumption below the 1.5°C global warming target as set out by the Paris Climate Agreement.

These factors have made Malinas the most sustainable retail park in Europe and the first retail park building to be net-zero carbon in operation. Our aim is to adopt this model across our portfolio going forwards.

#### CREATING GREENER OPERATIONS

In order to comply with the UN Paris Agreement, additional ESG initiatives are often required on top of the legislation. These initiatives are encouraged by private and public financiers, for example in the form of green loans. By committing to ESG, one can therefore win on several levels.

Reducing the cost of capital is a clear win. Investment vehicles with green assets can now attract more capital at a lower cost. Investors attach a brown discount to buildings that do not meet established sustainability criteria. This trend may be strengthened by the EU taxonomy regulation, which will increase market transparency and make it easier for investors to establish whether a new construction project, rehabilitation, or acquisition of property is 'green' or 'brown'.

***“Investors or developers who choose not to have green or net-zero carbon buildings or ignore certification will increasingly find that potential tenants and investors are less attracted to their buildings.”***



As a developer, we feel the responsibility to invest in and develop future-proof assets that in turn create green operations. Avoiding a climate catastrophe is now the greatest global priority. With buildings contributing to up to 40% of global greenhouse gas emissions, the built environment sector has a pivotal role to play in decarbonising and meeting the commitment to the UN Paris Agreement.

Improving operational efficiency and investing in energy efficiency also helps reduce the risk of volatile energy prices and reduce utility costs. The prospect of lower energy costs may mean tenants are willing and able to afford to pay more rent, which creates an economic incentive for owners to invest in operational efficiency. The anticipated introduction of carbon taxation is also likely to increase the cost of energy consumption in the coming decade.

Moreover, governments have set climate policy objectives that, if implemented, will transform how energy is produced and consumed. Building regulations are emerging that set requirements for disclosing and reducing energy use in buildings and reducing related carbon emissions.

As new regulations come into force, assets that do not meet the required levels of energy performance have several potential risks, such as becoming stranded, seen as unattractive to occupiers, and losing value, all of which have the potential to adversely affect returns. As investors and real estate owners, we have a responsibility to future-proof our real estate investments, and to ensure they are resilient and able to adapt to both climate-related transition and physical risks.

The built environment's role is to support people in their everyday activities, providing workplaces, homes and amenities. The role of a responsible real estate investor is to provide good quality spaces that support both human wellbeing and are carbon-conscious, contributing to the health of people, society, and the planet.

#### PUTTING A PRICE ON SUSTAINABILITY

While green isn't free, it doesn't have to break the budget when compared with conventional buildings on a first-cost basis. Sustainability isn't simply an amenity or signifier of corporate responsibility, but a core feature of the financing plan.

At our Malinas development, the additional cost to obtain a net-zero carbon building in operation and the BREEAM in-use Excellent certification was about 6.5% of the total €32.5 million construction cost. The biggest single investment in sustainable features was the solar panels and battery, at around €1.5 million. However, the payback period of these solar panels and battery is calculated at less than 4 years.

The cost of a BREEAM-certified and net-zero carbon building in operation should also be considered a marketing cost, not just a construction cost, as certification increases awareness of the building, leading to publicity and tenants who move in because the building is green. Investors or developers who choose not to have green or net-zero carbon buildings or ignore certification will increasingly find that potential tenants and investors are less attracted to their buildings.

Increasingly, funding sees lower interest rates for green buildings, for example through green loans, compared to the rates offered for conventional buildings, making bank financing easier and saving money over the life of a loan and improving the financial returns of the asset. Investors and developers, therefore, need to consider the life cycle impact of investments in green building elements because they will, in many instances, justify higher initial costs. For example, when energy and water costs are considered over the life of a building, they can help justify green purchasing decisions.

Recent research has found that since 2011, commercial buildings in Central London with a BREEAM rating Very Good or higher achieved a selling price on average 8% higher. If we assume this green premium also extends to other sectors, the initial price of sustainability becomes attractive.

It is therefore clear that the combination of political, societal, and market forces are increasing in momentum in favour of sustainability. By building sustainably, creating greener operations and budgeting in sustainable measures from the outset, investors can reap the benefits of what is a sound investment choice.

**8%** ANTICIPATED GREEN PREMIUM ON INVESTMENT | **4 YEARS** SOLAR PAYBACK PERIOD

**NET-ZERO BUILDING IN OPERATION**



# SHOPPING CENTRES

## TACKLING OCCUPATIONAL & ENVIRONMENTAL CHANGE

### HOW DO WE REPOSITION AND REPURPOSE RETAIL SPACE THROUGH AN ENVIRONMENTAL LENS?



BY:  
**Paul Miller**  
Development,  
Construction &  
Planning Consultant  
Sovereign Centros

#### OUR ENVIRONMENT

Our people and planet can be termed as the most precious thing that we all have a duty to protect, for both our families and future generations.

Consumers, investors and asset owners are becoming increasingly aware of the environmental challenges ahead of us and to which we all need to respond in order to deliver real, and sustainable outcomes.

Out of this concern has evolved a number of environmental phrases and acronym's that are becoming imbedded in the business language of real estate: Sustainability, Greening, CRREM, ESG and Cop26. There are clearly implications to the way we need to manage and develop large retail assets going forwards.

In facing up to the challenge how do we find balance between delivering positive environmental solutions when measured against its capital investment or in achieving equitable financial returns?



It certainly isn't easy. The pace of technological change within the environmental sector and the range of differing sustainability measures alone can be confusing, and if not carefully thought through, innovation of improved greening measures are likely to be introduced or superseded within a short timeframe.

So with this in mind, how are we approaching viable sustainability initiatives within the centres we manage, and what opportunities present themselves to go greener when we are repurposing or redeveloping assets?



#### ESG IN OUR DNA

There is a delicate debate to be had between ESG messaging and the delivery of tangible benefits within real estate developments and the asset management of commercial property.

Remembering that an ESG rating measures a company's exposure to long term environmental, social and governance risk, the balancing of ESG must consider in what order those risk headings should be reviewed, at what capital expenditure, and the financial and longevity benefits for each of the property assets under stewardship.

The range of retail and commercial assets being managed by Sovereign Centros all have their unique challenges, meaning no fixed order when understanding which of the ESG headings should first be considered.

Investors need to go beyond those tangible differences that are perceived as capturing the 'low hanging fruit' to demonstrate early positive results. To ensure the most effective ESG management strategy, and while working alongside more experienced sustainability focused investment funds or shopping centre owners, then it's the medium to long-term perspectives that become the most important considerations.

As one of the UK's leading real estate asset and development management organisations, the ESG agenda is front and central to everything we do within

the schemes being managed. Part of any sustainability audit means regularly evaluating shopping centre assets by reviewing net-positive & climate positivity; wellbeing and social impact; biodiversity; and the circular economy. It's about identifying those key environmental areas that will provide the greatest positive impact through the shopping centre activities and operations. In addition, a wider focus to include environmental deliverables on procurement, building certification, marketing, employment, travel, waste, and compliance needs to be considered to ensure these become 'business as usual' initiatives, thereby continually adding value to the centre on a daily basis.

As an example, future EPC regulation means that that without forward planning and adequate investment, a property asset could become 'stranded'. The key deadline of properties reaching a 'grade B EPC' by 2030 is not that far away hence the strongest asset management organisations having sustainability and future environmental improvements as a key metric within their business models.

That is where the bold developers and asset managers are heading. They are not responding solely to targets, but to real outcomes. This can be seen as 'brave' because the approach could be looked at as being detrimental when assets are 'valued' and rated purely in subjective terms rather than more objectively.





### ACTIVATING THE E IN ESG

The challenge from an environmental perspective is how to reduce those risks created by the core business activities that have actual or negative impacts on air, land, water, ecosystems and human health. Positive outcomes from carefully planned strategies seeking to minimise environmental liabilities, lower operational costs, and improving profitability through energy and other efficiencies, play a large part in managing shopping centre and retail assets.

Using one of the UK's largest shopping centres at Metrocentre in Gateshead as a good example of leading sustainability and greening audits, Sovereign Centros and Savills Earth have been collating a methodology for introducing future sustainability measures within the centre.

Initiatives range from small adaptations to game changing programmes. Working with specialised renewable and low carbon technology consultant Syzygy Consulting, we are installing one of Europe's largest shopping centre PV installations with over 4,700 rooftop and solar car port panels. This £3.2m project will generate over 1.25m kWh of electricity, enough to feed 340 homes and reduce equivalent emissions of 315 tonnes of carbon dioxide, as well as provide 37% of our electric supply over the system's 25-year planned lifetime.

Supporting a year-on-year increase in Metrocentre customers' shopping visits by electric vehicles, 46 new EV charging bays are also being provided within the car parking zones. These will be solar powered with a capacity to charge 600 cars each year.

While this environmental project is one of the largest and most noteworthy projects within the UK retail sector, it also provides our asset management team with real-time sustainability data and learnings that support both a long-term centre strategy for Metrocentre as well as providing knowledge-sharing opportunities with other major shopping environments that we manage throughout the UK.

### A CLEANER RETROFIT

One of the key considerations for any shopping centre investor is how to tackle the climate emergency through delivery of a net zero emissions policy, while futureproofing the asset through improved design and resilient infrastructure. Repurposing or reuse, rather than rebuilding, can present a significant embodied carbon opportunity.

One of the most recent examples we're undertaking is at the St Enoch Shopping Centre in Glasgow. After significant investment to the centre's retail offer, plans are in place to convert the former Debenhams into six floors of Grade A offices. Post pandemic, office occupiers are demanding more in terms of their working environment, technology and HVAC installations, with many firms prepared to commit to sustainable commercial space in line with their ESG policies and agree strong rental levels for the right product. It is these principles that are being demonstrated by our design team at St Enoch. It makes sense both occupationally and environmentally, with c.18,000 tonnes of embodied carbon being saved through refurbishing rather than thinking about demolition and rebuilding.

Trying to force the value of a place through retail use alone is rarely a viable option. Generating non-retail uses through alternative but complimentary operations will not only support increased retail footfall and social benefits, but also be considered as key to the future existence of the shopping centre environment.

In many of our schemes we are seeing this put into practice with the introduction of other community uses, such as healthcare which benefits from being connected to public transport, being located in clean and secure environments, close to the people they serve and complimentary to the underlying retail offer.

The bottom line is that diverse mixed-use places improve environmental efficiency through densification, and a reduction in the over exposure to retail, while at the same time boosting alternative footfall activity, and providing an opportunity to reduce future impact through the introduction of environmental initiatives during the retrofitting process.

### IS VIABILITY STILL A DETERRENT?

However, there are undoubtedly situations in which an existing infrastructure is unfit for purpose or becomes unviable in its present form. It's about balance, and at times there is no choice but to start again. This can provide an opportunity to create amazing new places with best practice environmental standards and blended use typologies. Working alongside sustainability-savvy investors and socially inclusive organisations has ensured that all new mixed-use developments Sovereign Centros are involved in are able to include and capture many of the sustainability and environmental requirements expected by the delivery of industry leading schemes, through carefully worked designs and differing building forms.

Whilst challenging to introduce and retrofit sustainable measures to the likes of existing and well-established shopping centres, the opportunity to design and create future-proofed technologies within new developments can support a different approach to sustainability thinking.

Any introduction of green practices will bring about capex requirements, and if technology-led, likely to require a large budget to deliver. With the introduction of enhanced materials and faster processing times, environmental technology continues to see improvement gains year-on-year, albeit with cost implications.

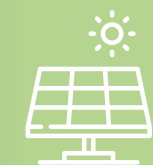
As ESG credentials begin to be embraced by landlords, investors, and retail brands, can those parties afford not to invest in the sustainable targets now expected by future generations and customers? If not addressed, then the potential to face reputational and regulatory risks becomes a real possibility. As we challenge reductions in our carbon outputs and improvements to operational efficiencies, then these parties do have a responsibility to work together in bringing about positive change through well thought out future ideas whilst also being supported by realistic capex requirements.

The shopping centre environment thrives on successful retailers who in turn must align their own customers desire in meeting climate change targets and the transition to a greener economy. Implementing positive change can be costly, but with careful thought and foresight it can be possible to achieve meaningful impact with limited resources, which many retailers are already achieving.

Despite this, many small and medium sized companies can find ESG a costly exercise, and lacking a clear financial gain. ESG as a definition can also be intimidating with its uncertainty around standards and frameworks. But can any business afford not to have an ESG strategy?

This further reinforces the requirement for a long-term environmental strategy, being created and supported by a pro-active asset management role, to help create wise investment decisions that can challenge and lead to improved retail values.

### METRO CENTRE STATS



4,700 ROOFTOP AND SOLAR CAR PORT PANELS UNDER CONSTRUCTION



88 TENNIS COURTS IN SIZE



EQUIVALENT TO 32,500 TREES



30% REDUCTION IN GRID DEPENDENCY



REDUCTION OF 315T OF CO<sub>2</sub> EMISSIONS EACH YEAR



SOLAR CAR CHARGERS WITH CAPACITY FOR 600 CARS PER YEAR

SOVEREIGN CENTROS ASSET MANAGE 11.5 MILLION SQFT OF SHOPPING CENTRES AND RETAIL PARKS ACROSS THE UK, WITH A FURTHER 3 MILLION SQFT OF RETAIL AND MIXED USE PROJECTS CURRENTLY UNDER DEVELOPMENT MANAGEMENT.



# TOWN CENTRES

## WHY GREENER SPACES ARE FLEXIBLE SPACES



BY:  
**Rob Tincknell**  
Partner,  
Areli Developments

### THE CASE FOR A BLENDED APPROACH TO ECONOMIC AND ENVIRONMENTAL SUSTAINABILITY

#### WHY BLENDED PLACES ARE GREENER

The 15-minute city concept is all about providing what communities need in close proximity, blending work, home and social lives with civic, health, wellbeing, education and transport. This enhances the community spirit and loyalty of that place, which in turn is good for the businesses that operate there. The blend of property uses is key; town centres need to be thought of as mixed-use consumer hubs and not just places to shop. The retail-only model is largely broken.

There are significant economic and environmental efficiencies to be made by creating busy places, and mixed-use town centres are at the heart of this. A broader church of occupation typologies with cross-pollination of uses increases footfall, but decreases journeys as people need to travel less to reach the things they need. Ensuring that buildings are used throughout the day optimises the energy required to heat or light them, and building in flexibility of space means reducing the financial and environmental burden, should occupational needs change in the future. Town centres need to be viewed as ecosystems of different but connected uses.

This is our vision for Nicholson Quarter, a 1.4million sq ft town centre repurposing development in Maidenhead with sustainability, social wellbeing, and the environment at the core of delivering this goal. All while being committed to generating consistently strong financial returns for shareholders and investors.

Investors want occupiers, occupiers want customers and customers want... Well, what do they want? Unsurprisingly they want active places, nice environments, access to services or goods, and places to have fun. They want to feel a part of a community, and increasingly, a reduction of their impact on the planet is becoming a focus. Fail to deliver this to customers and fail to deliver to investors. Therefore, the basis of any future town centre investment strategy must be around placemaking, sustainability and relevance.

ARELI

#### EVOLVING THE BUILT ENVIRONMENT

It's certainly more complicated to build than it used to be, but it is really exciting to be at the forefront of creating new places that will be central to the lives of communities into the next century. Our development experiences at Battersea Power Station, Gunwharf Quays, Orpington and Maidenhead are all very different, but the essence is the same: evolve and enhance these places to reflect the needs of their communities and wider societal benefits.

The debate on rebuild or retrofit rolls on, with pros and cons for each from an environmental perspective. In most instances, we would not be able to develop such ambitious town centre developments within the existing building fabric. Although essentially starting the embodied carbon journey again, rebuilding does have some significant advantages, both in terms of creating relevant and interesting places that are far more useful going forwards, but also in terms of the opportunity for building with far better and greener building standards and design.

Taking Maidenhead as an example, the proposed development is seeking to design in resilience to climate change and to increase the ecological value of the site. Its buildings need to consume less energy, with fewer associated carbon emissions. A development's

layout and building orientation can have an impact on energy consumption, due to the interactions of 'passive' natural systems such as solar heat, natural light, evaporative cooling and displacement ventilation. Its buildings' massing can also influence its energy performance, with all external surfaces (walls, floors, roofs etc.) acting as heat loss elements. Therefore, massing buildings to reduce external surface areas for individual units can help reduce heat demand for these units within a building. Individual units will also derive a beneficial 'shelter factor' from other units, as well as corridors and circulation space.

Buildings then use 'active' systems that provide high standard construction methods, such as BREEAM, thermal efficiency of the building envelope, and are fitted with natural systems and low- and zero-carbon technologies to reduce energy consumption. There is then ongoing management for water resources, enhanced biodiversity, operational waste and recycling, reducing pollution, as well as responsible sourcing and recycling of construction materials.



Nicholson Quarter, Maidenhead



### FLEXIBLE MEANS

Green retail development isn't just about construction materials and energy usage: it's about the design, rightsizing and flexibility of space. Adaptation is the key to the longevity of these places and important to delivering on both environmental and economic sustainability.

What do we mean by flexibility? It touches various elements, from building configuration, type of occupier and a flexible financial model.

Flexibility means adaptability of unit configuration. Our Maidenhead development is on the site of a shopping centre that was struggling with retail occupation as well as its ability to provide local residents with what they actually needed. Shops often don't need the large footprints they used to have and so the retail element is being right-sized from 180,000sqft in 40 units to 90,000sqft in 75 units, with units ranging from 250sqft to 5,000sqft. That's a reduction in average unit size from 4,500sqft to 1,200sqft. No-one would have predicted this two decades ago when ecommerce was in its infancy and many retail brands were seeking ever-bigger footprints. It just goes to show that flexible spaces are key to future tenants' preferences. It is right occupationally, but right-sizing is also greener, as smaller spaces mean less heating per unit.

Flexibility means units need to be adaptable to different kinds of occupiers. Traditional retail units as we have defined them in the last 50 years are no longer about creating identikit high streets with the same brands. The whole repurposing agenda is bringing to light the need to think more broadly about town centre uses, which could be retail, but also health, wellbeing, co-working, education, culture, civic and so on.



Flexibility means moving away from covenant-based leasing and is important in community-based retail places. A greater proportion of independent businesses provide a point of difference as well as linking in with community spirit and engagement. Flexible leases, turnover leases and a range of unit sizes allow small enterprises to grow and evolve. Meanwhile, incubator retail, pop-ups and markets create an active and vibrant street scene that is fluid, entertaining, interesting and ever-changing, thereby holding shoppers' curiosity. New concepts like Souk adapt the uses within units throughout the day as consumers want different things at different times; why have a shop with no customers most of the day when you can use that space for something else?

Flexibility also means bringing a different financial perspective with regards to how best to drive value from the site, and this might be less about the retail specific income. Rents and other overheads need to be affordable, but more important is the recognition that the primary goal of the 'retail' frontage is in driving the demand for other large spaces in the development, such as residential and offices.

Furthermore, retail supporting local communities will be greener than retail in large destinations due to reduced travel, as well as the fact they are visited more frequently.



Nicholson Quarter, Maidenhead

### A BLENDED APPROACH

There is no single solution to fixing either the problems inherent in retail places, or the route to net zero. Green regeneration is more than just improving the performance of buildings, or consuming less energy, or planting more trees. It's all of these of course, but arguably of most importance is extending and enhancing their relevance to the people that use them, for the long term. It needs to be a blended approach: greening, social value, occupation and sustainability – they're all linked.

Sometimes creative solutions can help resolve one problem with another. Battersea has loads of outdoor dining space, meaning less heating is required. When it is cold, they have a system that takes the extraction from the restaurant units, cleans it and uses it to heat external dining areas.

Fixing retail "is" going green. Community engagement comes from nice environments and with social value.

If we're rebuilding the centres of our towns and cities, how can we be sure they will be relevant in 50 years' time? If we don't build for the long term, then there is no investment story. Flexible places are greener and more resilient and therefore provide the best long term investment returns.



# WHAT IS THE INDUSTRY DOING?

## WHAT ROLE DO INDUSTRY ORGANISATIONS HAVE IN LEADING AND DIRECTING INITIATIVES AND BEST PRACTICE?

Multistakeholder collaboration is key in making environmental improvements to the built environment. Firstly, it is more efficient to learn and adapt together than to each go our own way. There is also something about shared responsibility that helps to motivate us to change our practices more quickly. So it is not surprising that industry organisations are working closely with members to provide guidance, support and strategy to meet these goals. The following case studies provide an overview of what industry organisations concerned with retail real estate and retail places are working towards with their members.



RICS



## BBP | BETTER BUILDINGS PARTNERSHIP

The BBP<sup>1</sup> is a collaboration of the UK's leading commercial property owners who are working together to improve the sustainability of existing commercial building stock, with aims to guide the industry in:

1. Delivering building performance, by supporting members and the industry in delivering operational excellence.
2. Improving professional understanding, by mainstreaming sustainability skills and providing guidance for non-sustainability professionals.
3. Stimulating market transformation, by enabling investors and occupiers to understand and act upon sustainability to drive change.

### KEY INITIATIVES INCLUDE:

#### UK NET ZERO CARBON BUILDINGS STANDARD

A cross-industry steering group, representing stakeholders across the built environment, have joined together to develop a standard for verifying UK buildings as net zero carbon. The UKGBC's Whole Life Carbon Roadmap demonstrates that buildings are directly responsible for around a quarter of carbon emitted by the UK. There is no credible pathway for the UK economy to reach net zero without tackling emissions associated with the construction and operation of our buildings. While significant progress has been made in defining what 'net zero' means for buildings in the UK, there is clear demand for a single, agreed methodology. The UK Net Zero Carbon Buildings Standard will enable industry to robustly prove their built assets are net zero carbon and in line with our nation's climate targets. Leading industry organisations BBP, BRE, the Carbon Trust, CIBSE, IStructE, LETI, RIBA, RICS, and UKGBC have joined forces to champion this initiative. The standard will cover both new and existing buildings and will set out performance targets addressing operational energy and embodied carbon emissions to align with the UK's 2035 and 2050 emissions targets (78% reduction and net zero respectively). It will also cover the procurement of renewable energy and the treatment of residual emissions, including carbon offsetting.



### THE REAL ESTATE ENVIRONMENTAL BENCHMARK (REEB)

Every year, members of the Better Buildings Partnership (BBP) submit data on their managed UK commercial real estate portfolio into the Real Estate Environmental Benchmark (REEB). REEB is one of the only benchmarks based on the performance of buildings 'in-use' and is increasingly becoming the industry standard used by investors, fund managers and property owners to compare the performance of commercial properties across the UK. The REEB dataset continues to grow, with a 171% increase in floor area over the last 10 years and a total of 1,142 properties benchmarked in 2019/20.

### THE MANAGING AGENTS PARTNERSHIP

Since the Managing Agents Partnership (MAP) launched in 2015, it has gone from strength to strength. The MAP project provides an open forum for managing agents to collaborate and develop common approaches to industry challenges. In June 2021, BBP launched the Responsible Property Management Toolkit to the industry, which provides practical guidance for asset managers, property managers and facilities managers on embedding sustainability within property management services. MAP focuses on the following key topics:

- Responsible Property Management
- Managing for Performance
- Net Zero Carbon
- Social Value
- Waste Management

<sup>1</sup>[www.betterbuildingspartnership.co.uk](http://www.betterbuildingspartnership.co.uk)





RICS<sup>2</sup> is providing guidance on a number of strategic sustainability goals in order to reduce the carbon impact of the built environment.

#### INTERNATIONAL COST MANAGEMENT STANDARDS (ICMS)

RICS is one of 49 globally prominent organisations that have developed ICMS 3 – a world first for cost and carbon management in construction, from concept to completion and beyond. ICMS 3 will contribute positively to efforts to decarbonise the construction sector in the most cost-effective way, empowering professionals to deliver a globally consistent method for carbon lifestyle reporting across different projects.

#### BUILT ENVIRONMENT CARBON DATABASE

RICS is leading on the development of a free to access Built Environment Carbon Database in collaboration with organisations covering the breadth of the UK built environment. With the built environment contributing around 40% of total global emissions, the UK construction industry faces a seismic challenge as we strive towards decarbonisation. Achieving consistency in how we report and measure emissions and supporting that measurement with up-to-date accessible data will be vital. In a great step towards this, key built environment organisations representing the majority of the UK construction industry have committed to advocating the widespread use of the carbon database, including among their members. It's designed to be the main source of data for carbon estimating and benchmarking in the UK construction sector, serving as a practical tool to support the decarbonisation of our buildings and infrastructure. Organisations involved in the development of the Built Environment Carbon Database are BRE, Carbon Trust, CIBSE, CIC, CIOB, ICE, IStruct, RIBA, RICS, UK GBC and the Environment Agency.

#### GUIDANCE AND STRATEGIC ADVICE ON SUSTAINABILITY AND ESG IN COMMERCIAL PROPERTY VALUATION

This global guidance provides a practical framework for delivering on sustainability and ESG investigation, reporting requirements in professional valuation advice, and providing practical and globally relevant principles for the delivery of the sustainability and ESG requirements adopted in the Red Book Global Standards. This includes:

1. Good practice advice supporting everyday commercial valuation practice and its interface with ESG and sustainability.
2. Alignment of ESG and sustainability considerations with the core mechanics of valuation (purpose, basis, approach).
3. A glossary of globally relevant sustainability and ESG terms and an appendix referencing world-leading rating, benchmarking and performance frameworks and tools.

<sup>2</sup>rics.org/uk



UKGBC<sup>3</sup> is an industry-led network with a mission to radically improve the sustainability of the built environment by transforming the way it is planned, designed, constructed, maintained and operated. UKGBC launched its Advancing Net Zero programme in 2018 to help drive this transition in the UK and deliver the emissions reductions required from the construction and property sectors. Their vision is to ensure the built environment enables people and planet to thrive by:

- Mitigating and adapting to climate change
- Eliminating waste and maximising resource efficiency
- Embracing and restoring nature and promoting biodiversity
- Optimising the health and wellbeing of people
- Creating long-term value for society and improving quality of life

<sup>3</sup>www.ukgbc.org



UKGBC plays a critical role in convening built environment businesses to share knowledge and accelerate learning while scaling up the adoption of best practices. Work across all five of UKGBC's impact areas has brought together hundreds of stakeholders, from the property and construction industry and beyond, to co-create and adopt new guidance and to share insights and lessons learnt from implementing it. In addition, member forums (including Members Advisory Group, contractors, infrastructure and university research forums) convene meetings for special interest groups to find new collaborative ways of overcoming the common sustainability challenges they each face.





The BRC's Climate Action Roadmap<sup>4</sup>, published in November 2020, is the retail industry's commitment to deliver net zero in their own operations and the products they sell by 2040. An ambitious initiative, it will make a huge contribution to the UK's overall climate strategy, particularly reducing carbon in the products we buy that account for nearly a third of household emissions. The roadmap has the support of the majority of UK retail brands, from the largest stores to small chains, on the high street and online, including both owner occupied and leased assets. They have come together to find collective, practical solutions to the challenge of reducing carbon, working with suppliers and consumers to deliver net zero via five pathways. The roadmap and its pathways related to shops and their buildings are discussed by BRC's Dominic Curran in this publication :

1. Putting greenhouse gas data at the core of business decision making
2. Operating efficient sites powered by renewable energy
3. Moving to low carbon logistics
4. Sustainable sourcing
5. Helping our employees and customers to live low carbon lifestyles.

<sup>4</sup> [brc.org.uk/climate-roadmap](https://brc.org.uk/climate-roadmap)

<sup>5</sup> See BRC Climate Action Roadmap article p.88



Revo<sup>6</sup> supports the interests and values of the whole retail, leisure, and placemaking real estate community.

It is the forum for its members to network, share experience, provoke thinking and lead the evolution of the built environment. Revo's current member-led sustainability projects include:

1. Regulatory Route-mapping – an ongoing multi-format project to assist members plan for upcoming and proposed changes in ESG related regulations, including issues such as the friction between MEES and de-carbonisation, district heat networks, corporate governance and reporting obligations.
2. Value of a Just Transition to Net Zero – providing guidance and thought leadership on the issue of ensuring that the 'costs' of the race to net zero are understood and managed, so they don't fall on those least able to "pay" for them.
3. Energy Efficiency and Service Charges – investigating the impact of ESG on service charges in light of the RICS Professional Standards, and proposed changes to energy efficiency regulation. Also providing guidance and sharing knowledge on green lease policies and drafting.
4. Revo's Social Value Toolkit launched in the summer of 2020 provides a framework for its members to create open, healthy and inclusive retail spaces that build social communities and provide open, accessible and inclusive space at the heart of their local community.

<sup>6</sup> <https://revocommunity.org/>



City centre stakeholders that come together as a property association, enable landlords with common geographies and goals to have a single voice. The WPA<sup>7</sup> is the voice of property in Central London and is a not-for-profit advocacy group representing over 240 members from across Westminster's built environment. Their membership is diverse and covers the full spectrum of the industry, including commercial, retail and residential sectors. In November 2020, WPA produced a white paper on decarbonising the City's built environment, with a vision for net zero by 2040. Westminster City Council (WCC) has set a bold ambition, aiming to transform the City of Westminster with 'climate first' objectives. This 2040 target has been further articulated and contextualised in this white paper to set an overarching vision for a built environment of the future with net zero carbon emissions. These targets are articulated as:

1. By 2040, Westminster's heritage assets will be adapted and retrofitted to be resilient to climate change and updated to optimise their energy efficiency, using sensitive solutions which preserve their historic significance.
2. All new developments will be 'net zero carbon' by 2030: fully electrified (or using other low carbon heating options) and powered by renewable energy. Whole life carbon will be significantly reduced by adopting circular economy principles and innovative construction materials and processes.




3. All remaining building stock will be made energy efficient through appropriate retrofit and de-carbonised energy and heating systems.
4. The City's high quality public realm will be created with low carbon materials, and designed to be flexible and adaptable to meet the needs of residents, workers and visitors.
5. Any unavoidable carbon emissions are offset through credible programmes that maximise benefits for the local community.
6. Monitoring and performance disclosure against Westminster's net zero carbon targets will set new standards for transparency and reporting in the built environment.

These outcomes are intrinsically linked to the decarbonisation of transport, freight delivery and waste collections, which serve and support Westminster's built environment. The success of a net zero carbon city will not just be measured in carbon reductions but will simultaneously benefit the community and economy by strengthening climate resilience, innovation, job creation, supporting a green recovery and creating a healthier environment for all.

<sup>7</sup> [westminsterpropertyassociation.com](https://westminsterpropertyassociation.com)





# CHAPTER 4

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# OCCUPATIONAL

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# CARBON

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THE CORE ISSUES  
AFFECTING RETAILERS



# THE BRITISH RETAIL CONSORTIUM'S CLIMATE ACTION ROADMAP



BY:

**Dominic Curran**  
BRC Property  
Policy Adviser

## HOW IS THE RETAIL OCCUPATIONAL MARKET RESPONDING TO THE NEED FOR CHANGE?

### RESOURCEFUL RETAIL

Retail is the largest employer in the UK, accounting for one in ten of all workers. It's in almost every community and location in the land and pays 10% of all business taxes despite accounting for half that proportion of the UK's GVA. Retail is the first job most people have and is the biggest employer of people who walk to work. It is disproportionately an employer of people with caring responsibilities, for young people with entry level qualifications, and for women.

Retailers are responsible for implementing a whole range of government regulation, from reducing plastic use, increasing recycling through deposit return schemes or improving the nation's health through restrictions on high fat, salt and sugar content foods. Retailers also pay 25% of all business rates. For some retailers, rates account for half of their total tax bill and are often the biggest hurdle of store viability.

Despite this, it seems like government takes retail for granted. It's hard to escape the suspicion that an attitude persists in parts of Whitehall, particularly the Treasury, that assumes retail will always look after itself and land on its feet. There will always be shops, new businesses will take over from old ones in a constant cycle of Schumpeterian reinvention and, while the shape and look of retail may change over time, it mostly only needs benign neglect interspersed with occasional limited tinkering.

Retail is certainly an incredibly self-sufficient and resourceful industry, outperforming the broader UK economy in terms of productivity in recent years and running on wafer-thin profit margins in an extremely competitive environment. Insofar as the industry has looked after itself and landed on its feet, however, it has done so under increasing strain. Headwinds abound, with the cost-of-living crisis impacting consumer expenditure, and the increased cost of sourcing, manufacturing and transporting. Then there are the occupational costs, business rates and overall reduced margins. So how does the retail industry manage all these burdens as well as consider their place in reducing environmental impact?



### THE CLIMATE ACTION ROADMAP

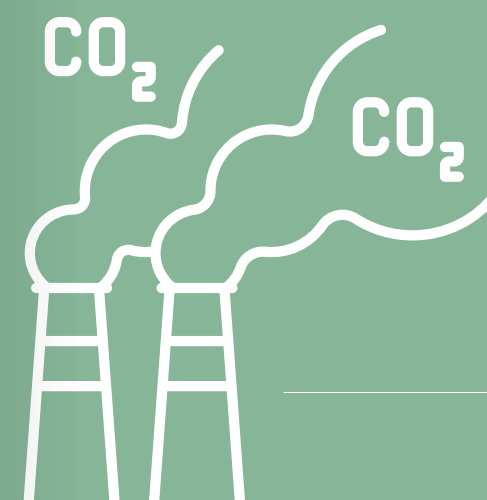
Nothing is more pressing than the need to reduce our carbon emissions. The British Retail Consortium (BRC) has estimated that the retail industry emits 215m metric tonnes of carbon, based on the emissions created by the goods sold annually in the UK (this figure excludes vehicle and fuel sales). Food, drink and tobacco account for the lion's share of this, being responsible for 62%.

There's no point selling the best value t-shirt if the planet is uninhabitable. That's why the BRC has worked with members to develop its 'Climate Action Roadmap'. Launched in April 2021, the roadmap is a plan developed by the retail industry that sets out its ambition to go net zero by 2040 for all products sold in the UK ('Scope 3'

emissions), ten years earlier than the Government's 2050 target. Beneath this headline target, the industry will move faster to meet net zero targets by 2030 for retailers' electricity use ('Scope 2' emissions) and by 2035 for fuel, gas and refrigerant ('Scope 1' emissions).

The roadmap sets out five 'Pathways' covering the main areas of the industry's activity and carbon emissions. These Pathways address: using data to understand sources of greenhouse gas emissions; operating efficient properties powered by renewable energy; moving to low carbon logistics; sustainable sourcing; and helping employees and customers move to low carbon lifestyles.

<sup>1</sup> [brc.org.uk/climate-roadmap/](https://brc.org.uk/climate-roadmap/)



**THE RETAIL INDUSTRY EMITS 215M METRIC TONNES OF CARBON, BASED ON THE EMISSIONS CREATED BY THE GOODS SOLD ANNUALLY IN THE UK**



### GREENING RETAIL PROPERTY

The Roadmap has been signed by over 70 of the biggest retailers in the UK. The signatories are working in partnership with the BRC and other partners to develop tools, policies and best practice to support and inform retailers' progression across all the Pathways.

Perhaps of most significance to the retail property industry is Pathway 2, which focuses on operating efficient sites powered by renewable energy and has already produced its first output. The Retailer-Landlord Protocol<sup>2</sup>, launched in November 2021, sets out the range of principles that retail occupiers and landlords should take into account when negotiating new leases. They cover things like consistent use of, and demand for, data, flexibility for tenants in putting in energy-saving measures, and positive approaches to funding and allowing relevant property improvements.

The Protocol is only the first step. The BRC doesn't keep data on the extent to which retailers conform to it, nor do we have powers of sanction, and we rely on member engagement in developing tools and then member willingness to use them to meet the roadmap's targets. So, we are going to build on the Protocol with further work this year, and beyond.



### COLLABORATION IS KEY

The BRC is looking to develop the principles of the Protocol through three specific projects in 2022. We will be working with Mitsubishi Electric to produce a series of best practice toolkits on energy use that retailers can access and use to support their net zero programmes. We are also working with the Crown Estate and other partners to develop the ideas in the Protocol into a set of 'Green Clause' templates that retailers can use to embed the ideals of the Protocol into practical applications.

We hope to work with landlords to jointly develop these so that they can be broadly supported and adopted and can help nudge the market into using new standard clauses. The aim is to reduce the friction cost of agreeing leases for sustainable buildings, or to undertake more sustainable practices once in occupation. Finally, we will also develop a toolkit to support those retailers looking to install electric vehicle charge points for their customers. There is a plethora of options out in the market, and support for retailers navigating these would help to reduce Scope 3 emissions.

Collaboration has to go upstream to government as well. Retailers do not have deep pockets and if they are to invest in the climate initiatives that we all know need to happen, then the Government needs to reflect on retailers' abilities to make improvements given their commitments through levies such as business rates. In effect, policy from one quarter is hindering policy from another. The burden of rates must fall to allow space for more investment in more urgent and productive areas of the industry, such as meeting its own targets for net zero.

Despite challenging economic headwinds, the burden of business rates and other regulatory costs, retailers are committed to more sustainable stores, and greater use of renewable energy to power them. The ongoing transformation of the industry to a new omnichannel setting is part of its new approach to physical property, and ensuring that those stores that remain are attractive, relevant, and sustainable, both economically and environmentally.

<sup>2</sup> [brc.org.uk/news/csr/retailerlandlord-net-zero-buildings-protocol/](https://brc.org.uk/news/csr/retailerlandlord-net-zero-buildings-protocol/)



PLACING CHG DATA AT THE CORE OF BUSINESS DECISIONS



OPERATING EFFICIENT SITES POWERED BY RENEWABLE ENERGY



MOVING TO LOW CARBON LOGISTICS & SOURCING SUSTAINABLY



HELPING OUR EMPLOYEES & CUSTOMERS LIVE LOW CARBON LIFESTYLES





# REDUCING IMPACT TAKES INNOVATION



BY:

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Senior Assets &  
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Costa Coffee

## HOW CAN A RETAILER REIMAGINE ENERGY AND WASTE ACROSS ITS PORTFOLIO?

### ADAPT OR DIE

We all know that the retail industry has an uphill challenge to reduce its carbon footprint, but there is no alternative. There are two pivotal reasons why ESG is important to Costa Coffee's brand: it is a high priority for both our investors and our customers. Failing to adapt could mean losing relevance and that can and has already been seen to have dire consequences for brands once deemed too big to fail. Change is something to embrace. After all, retail is innovative and imaginative and has always evolved with the times: the path to net zero will be no different.

There is no single way to reduce our climate impact; instead, it needs to be a core part of a business's mindset, with ideas and initiatives coming from all aspects – from product sourcing to customer transaction. As a retailer in growth mode, we must think about bringing forward a better standard of buildings and the way we operate them. We don't always have as much control of the built space on existing locations as we would like, but there are clear opportunities when developing new sites.

There are some great innovations coming to market that confront these challenges head on. Use your imagination and embrace the creativity of others and opportunities will present themselves in weird and wonderful ways. Here are some of the ways we are approaching issues around our building emissions, energy usage and waste.

**COSTA**  
COFFEE

### BUILDING DESIGN

Costa Coffee has 4 EcoPods within the estate so far - these stores had sustainability built in from the initial concept through to the design and build stage. The units have a super insulated facade, passive ventilation, under floor heating, rainwater capture, and solar power generation. The primary structures are made from a sustainable timber frame construction and the roof design minimises solar gain, and therefore the need for additional cooling in the summer. These stores offer a long-term reduction in scarce freshwater usage, are c.30% more efficient and have a physical environment that both staff and customers enjoy.

As a tenant, we need developers to actively commit to sustainable design and engage specialist architects who have the skill and knowledge in this field. We have to work with developers and investors on our sites to ensure they buy into the long-term benefits of sustainable design verses the traditional methods. We are yet to quantify the premium for owning one of these investments in the long term, but instinctively it is the only direction worth taking.

What to do to improve our existing store portfolio has become an ever more pressing issue, given the government's proposed agenda to bring stock up to minimum standards of efficiency by 2030. Who pays for this will be hotly contested between landlord and tenant if their respective interests differ in the short and long-term.

### ELECTRIC VEHICLE (EV) CHARGING

There is a strong and natural synergy for Costa Coffee and the rapidly evolving EV charging market. The government has targeted 300,000 non-domestic charge points by the end of the decade, equivalent to a tenfold increase. Chargers will need to be conveniently located on the transport network and in retail and workplace settings. With much of our estate already roadside or on retail parks, we are well placed to adapt to the rising demand for rapid charge space for the EV driver, with a convenient dwell time offer. This builds in resilience to our offer as well as serving an important public resource on the road to a lower carbon future.

EV charging providers have been entering the market for some time now, including traditional fossil fuel distributors (Shell Recharge and BP Pulse) who can make the most of adapting existing petrol stations. There are also a host of new ventures creating new formats or retrofitting charging units into other types of location and we are already partnering with several specialists.

Gridserve are rolling out a national network of electrical vehicle forecourts, which will effectively become the 'gas station' of the future. Their first site is in Braintree, Essex, and includes a collaboration with Costa Coffee, M&S Simply Food and WHSmith's. This allows both the car and driver to refuel with a coffee, read a paper, use the co-working facilities, or even work out on an exercise bike<sup>1</sup>. For Costa's existing store estate, we are working with Instavolt with the rollout of EV charge points across our drive-thru network (coffee, charge, drive).

While there is considerable demand for charging sites, there are challenges with the rollout of a national EV charging network at the strategic level due to a shortage of capacity on existing power networks. As we transition to more electric vehicles, who will pick up the cost of investing in these networks? We have sites where EV installation is unviable, not through lack of appetite, but due to the significant investment costs to upgrade capacity and local network connectivity. The private sector will deliver, but only through more public sector support.

<sup>1</sup>[www.gridserve.com/braintree-overview/](http://www.gridserve.com/braintree-overview/)





## ENERGY

Similarly with energy, the crisis we face isn't just one of cost and affordability, but more about availability. With ever-increasing wholesale energy market prices, what alternatives do retailers have for securing cheaper, greener fuel? Our aspirations for decarbonising energy usage are supported where PV (solar panels) can be installed, but often hindered in locations where, through no lack of will, we continue to rely on the UK energy market. With multiple businesses pledging to hit their net zero ambitions post-COP26, the price of Renewable Energy Guarantees of Origin (REGO) certifications has jumped 12-fold in recent months. The demand for REGO backed renewable energy has significantly outweighed the availability of production and the lack of infrastructure is creating a major bottleneck in delivery.

The Government urgently needs to review its energy strategy here. One option could be to encourage more Power Purchase Agreements (PPAs), which require long term investment into new green energy projects with a guaranteed forward purchase fixed price. Would tax incentives lead to greater investment into PPAs, resulting in greater investment in green energy productions and create certainty for business?



Source: bio-bean

## WASTE

Waste is a clear challenge for the retail sector and we are making inroads at reducing our impact via some truly inspirational innovations. There are three principal waste streams from our store network; coffee, cups, and a small amount of food. It just goes to show that one man's trash is another man's treasure.

For coffee waste, Costa has partnered with bio-bean for over 6 years and recycled more than 21,000 tonnes of spent coffee, resulting in reduced GHG emissions and diversion away from landfill or incineration to a sustainable reuse material. bio-bean has discovered ingenious ways of upcycling spent grounds, including extraction of residual key compounds for a food and beverage flavouring ingredient, and the manufacturing of solid biofuels in the form of Coffee Logs and coffee pellets<sup>2</sup>. Coffee Logs generate 132% fewer emissions than if the coffee grounds went to landfill, and they burn 20% hotter than kiln-dried wood. bio-bean have also transformed Costa's spent coffee grounds into Inficaf – a sustainable raw material for use in plastics and bioplastics, automotive friction, cosmetics and more – which we're exploring use of in our store infrastructure.

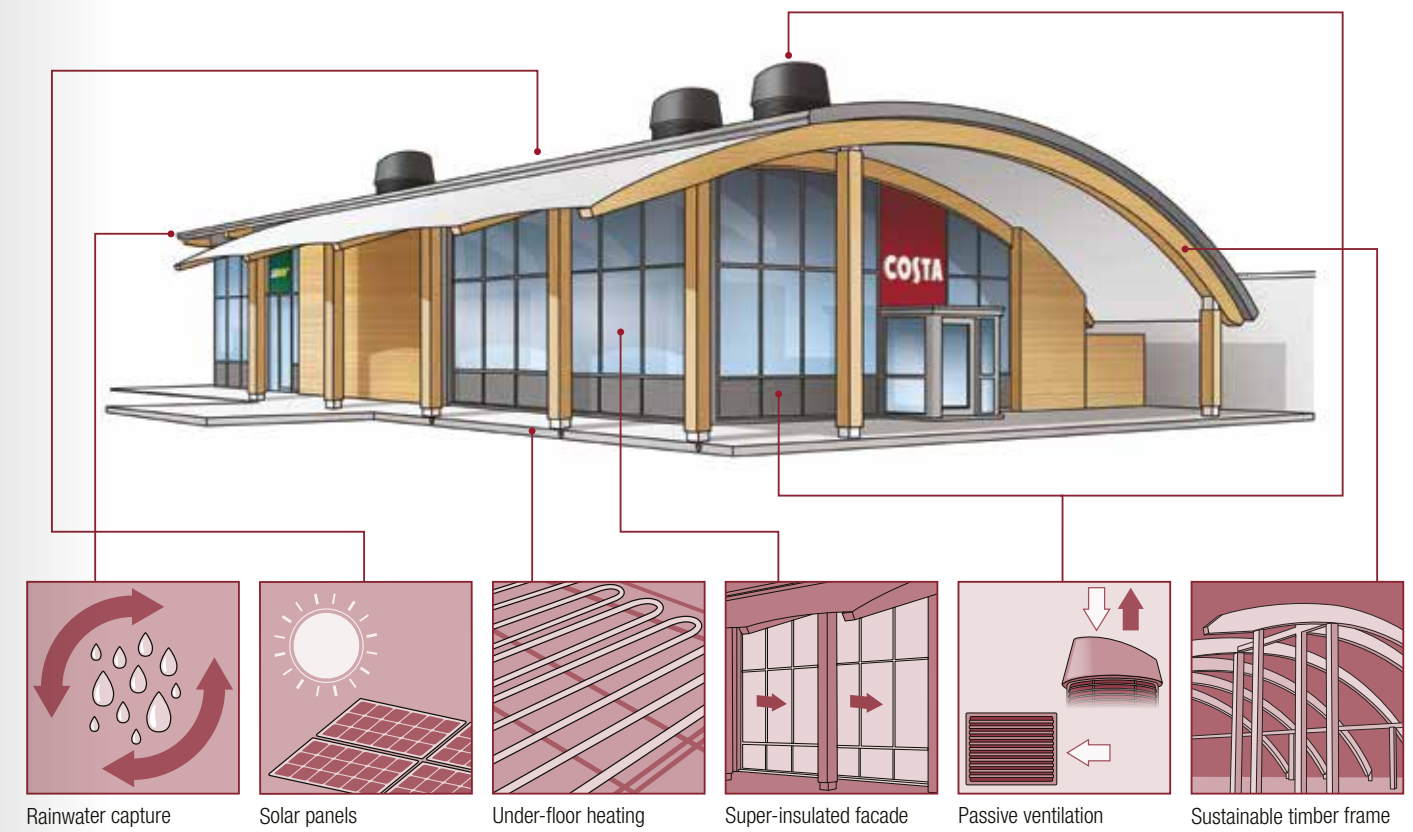
Single use cups gain the most headlines in the press when linked to campaigns against their use. At the end of 2021 we changed the lining of the inside of our takeaway cups to a plant-based plastics rather than oil-based plastic. These new cups have a 26% lower carbon footprint than a standard takeaway cup when recycled. Costa is also a founding member of the National Cup Recycling Scheme<sup>3</sup> which operates a take-back scheme for used single use cups, which are sent for specialist reprocessing and reuse. We are committed to recycling cups, even if those brought back don't originate from us. We also support schemes run via local authorities who provide on-street recycling points for such material, although contamination remains an issue.

Given the high volume of single use cups that the entire industry uses daily, a shift in consumer behaviour is required from 'single use' to a 'reuse' mindset. The government has already indicated that they are considering mandatory take-back schemes for single use cups with ongoing speculation of a cup levy being introduced. If we cannot nudge the consumer to reuse, then doing more to capture at the point of disposal has to be a step forward.

For our food waste, we first partnered with Too Good To Go in 2018 to ensure that unsold edible food wasn't unnecessarily going in the bin. The scheme was extended to over 1,100 stores in early 2021. Any left-over food waste is turned into biogas via AD partners.

<sup>2</sup> bio-bean.com

<sup>3</sup> cuprecyclingscheme.co.uk



## CLIMATE ACTION

We're not there yet, but the opportunities to improve our climate impact are evolving all of the time. Consumers demand it and so should we. It isn't always easy, either because a solution is cost prohibitive, or the infrastructure available to us is lacking.

Are we doing enough? It would be hard for anyone to honestly claim that they were. However, are we committed to change, and do we recognise the urgency? Absolutely. That's why Costa is one of the development funders of the British Retail Consortium's Climate Action Roadmap and we are committed to our part in delivering on the industry's net zero ambition.

The journey of adaptation is a genuinely exciting one to be part of. I am positive about the outlook, our role in doing the right thing and discovering new innovations and enterprises that will help lead us there.

***“There is no single way to reduce our climate impact; instead, it needs to be a core part of a business's mindset, with ideas and initiatives coming from all aspects – from product sourcing to customer transaction”***



# RETAILER EMISSIONS: HOW DEEP DOES THE RABBIT HOLE GO?

## AND WHY ADDRESSING THE SUPPLY CHAIN IS THE KEY TO RETAIL PROPERTY GOING GREEN

### THE CARBON CHAIN

It's easy to point the finger at a retailer's apparent lack of ambition in reducing their environmental and social footprints. Of course there are those who conduct their businesses far better or worse than most, but we are kidding ourselves if we think the challenge of cleaning up the retail industry is an easy one. As consumers, it is our ongoing and insatiable appetite for cheap, replaceable goods that is largely to blame. As landlords, perhaps we need to cut tenants some slack when it comes to improving shop units, or resisting committing to Green Leases<sup>1</sup>, because their focus may be elsewhere in their supply chain. More often than not the largest brands are shifting focus to decarbonisation, but momentum needs to increase and the scale of the challenge can feel overwhelming.

While for real estate our concern is primarily the buildings we lease, as an industry that profits from retail we are part of the problem and it is our responsibility to support retailers in reducing their impact at every step of a product's life.

The UK accounts for around 435million tCO<sub>2</sub>e<sup>2</sup> per annum within its borders, but as a net importer this misses the bigger picture. When we account for the emissions associated with the things we buy that are made elsewhere, the emissions almost double to 840million tCO<sub>2</sub>e. This includes imports, flights and shipping, some of which are unrelated to retail, but provides an indication of just how much our shopping behaviour is impacting on global emissions even before the products reach our shores, let alone our stores.

So far, ESG and emission assessments have only really reached as far as the direct behaviour of those being assessed. For landlords concerned with reaching net-zero there is a strong motivation to ensure that emissions associated with how their tenants use their spaces are minimised (a landlord's Scope 3 is their tenant's Scope 1&2 emissions<sup>3</sup>). Similarly, a good ESG strategy is devoted to the environmental and social conduct of a landlord and not typically the conduct of the tenants they do business with, and even less likely the conduct of the people their tenants do business with.



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Research

<sup>1</sup> See Green Leases article p.106

<sup>2</sup> How Bad Are Bananas? – The Carbon Footprint of Everything

<sup>3</sup> See Whose emissions are they anyway? article p.22

### CONNECTED FOOTPRINTS

However, this is likely to have to change. We're already seeing retailers being held to account for malpractice 'out of their control' down the supply chain and they are beginning to act. For landlords too, there are likely to be negative consequences should they be seen to lease shops to businesses that fail to comply with ESG principals somewhere within the value chain. Landlords and retailers will in effect be guilty by association, which will damage reputation, customer loyalty and share price.

Both Scope 3 and ESG related to the occupiers and their supply chains should therefore be on the radar of the retail landlord. This means being socially and environmentally responsible from product source to delivery to end-of-life to recycle. However, the reality in solving this is somewhat of a rabbit warren. A retailer's Scope 3 often accounts for over 95% of their total emissions (80% for hospitality), and what about the Scope 3 of their suppliers, or their suppliers' suppliers? Mobile phone chips have been found to use rare minerals extracted from mines in developing countries by children under dire working conditions<sup>4</sup>. These are then shipped to Asia and merged with hundreds of other parts sourced from global origins, before being packaged and traveling back across the world to be sold in Europe. Countless touchpoints and miles that all need to be tracked, ethically sourced and monitored for energy usage. The E and S in ESG are closely connected.

### GETTING TO GRIPS WITH A PRODUCT'S LIFE STORY

As we become more wedded to Circular Economy principals we have to completely rethink a product's life cycle and the environmental consequences at each stage in the journey. Based on Defra's figures for the UK's carbon footprint, the total lifecycle footprint of goods sold annually in the UK is 215 million tCO<sub>2</sub>e (around 50% from grocery); BRC estimate that 75% of emissions are in production and use and some retailers already include the lifetime energy used by the customers on their products within their total emissions estimates. ESG and legislation is starting to hold retailers to account for different aspects and it won't be long before landlords are held to account too and will need to pile on their own pressure, support through their own infrastructure, or review who they are willing to lease space to.

While many of the supply chain issues appear out of direct control of retail landlords, encouraging good practice and backing occupiers with the best initiatives or dealing more cautiously with those with the poorest credentials will help build credibility and loyalty from consumers and investors, while encouraging retailers to get their houses in order if they are to occupy the space they want. Improving both retailers' and landlords' Scope 3 emissions and ESG credentials of the supply chain are in effect the key to greening the retail industry.

***"The UK accounts for around 435million tCO<sub>2</sub>e per annum within its borders, but as a net importer this misses the bigger picture. When we account for the emissions associated with the things we buy that are made elsewhere, the emissions almost double to 840million tCO<sub>2</sub>e"***

<sup>4</sup> www.humanium.org/en/child-labour





## RETAIL SUPPLY CHAIN ENVIRONMENTAL &amp; SOCIAL IMPACT PINCH POINTS

## 1 ETHICAL SOURCING &amp; PRODUCTION

*Environmental and humanitarian practices that minimise loss of biodiversity, use of plastics, high chemical and water usage, wastage and utilising recycled materials.*

Cash crops and meat production continue to devastate primary rainforest, the fashion industry is the world's second largest water polluter and pesticides have desecrated insect and fish populations, causing cancer and Alzheimer's in humans<sup>5</sup>. The list goes on and polarisation is beginning to set apart the most and least progressive producers and retailers when it comes to acting and improving upon this impact, or ignoring it.

The need to improve labour conditions is also receiving increasing attention, yet retail supply chains often lack transparency or are difficult to track. According to Cleanclothes.org, no major brand can actually prove all workers in their supply chain earn a living wage, demonstrating either a lack of knowledge or influence in the conduct of third party suppliers. However, in 2021 Boohoo had £1bn wiped from its share value in two days in the wake of allegations of employee exploitation from factories in Leicester, showing how negative press can have significant consequences and that ignorance is no excuse for apathy.



<sup>5</sup>Nature.com

## 2 ENERGY USAGE OF SUPPLIERS &amp; MANUFACTURERS

*Ensuring green tariffs or own generation.*

China produces 65% of the world's clothes and accounts for almost a quarter of global emissions. However, the country produces 20% fewer emissions per capita than the UK and much of these are accounted for when producing products destined for Europe. So, given the West's demand for cheap goods, it isn't always as simple as portioning blame elsewhere and assuming we are unaccountable. While acknowledging that their suppliers in some countries don't have access to green energy, IKEA have secured 100% renewable energy on all of the sites they own or manage globally. The retail property market can go a long way to improving the energy usage and generation on their own sites<sup>6</sup>, but it is equally important to encourage best practice from other businesses we deal with, up or down the supply chain, wherever this may be. In some countries this is far from straightforward because the infrastructure isn't there, or there may be other unforeseen consequences with renewable generation. Hydroelectric, often seen as one of the cleanest fuels, is not without controversy in places like China and Brazil where biodiversity has been lost to make way for dams.

<sup>6</sup>See Energy Sourcing & production article p.38



## 3 SHIPPING VERSUS AIR FREIGHT

*Minimising unnecessary journeys through a more strategically located supply chain.*

While the shipping industry accounts for 4% of global emissions, the sheer volume of goods transported together means that the carbon cost is actually pretty small at the product level, particularly when compared to air freight or road travel. It is less environmentally damaging to ship beer from Australia to the UK than drive it from Spain, provided it is manufactured close to the coast. Tomatoes grown in Scotland in winter are far more carbon intensive than tomatoes grown in Spain in the same months. So, it isn't always as simple as going local. That said, the volume of goods transported around the planet means there is a gargantuan footprint to address. The world's biggest shipping company Maersk is investing £1bn in 'carbon neutral' container ships, but decarbonising the entire shipping industry could cost upwards of £1.5trn of investment in cleaner fuels as well as the production of new ship designs. While reinventing the shipping industry will come at a cost to consumers, due to the volume of shipped goods, estimates indicate the result would be less than 1% added on to the cost of the price of transported goods<sup>7</sup>.

<sup>7</sup>BBC's Costing the Earth



## 4 STORAGE AND REFRIGERATION

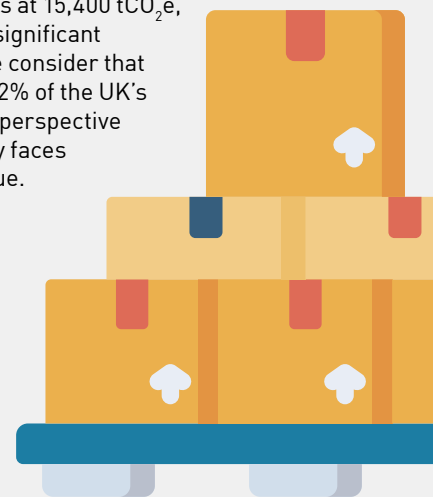
*Moving to lower impact refrigerants, better maintenance of equipment and utilising renewable energy.*

Storage and refrigeration contribute to climate change from the electricity used to run them and the refrigerants used to cool them. In theory powering them with 100% renewable energy or placing doors on chillers solves a big part of the problem. However, over 3bn refrigeration and air conditioning units contain HFCs, a greenhouse gas up to 9,000 more potent than CO<sub>2</sub>, which will be an issue at disposal unless adequately dismantled; this has been highlighted as the no1 initiative globally that would make a positive impact on global warming<sup>8</sup>. HFCs are being phased out (albeit with an unambitious global target set at an 80% reduction by 2047), but while the current available technology to replace them is less impactful it isn't entirely clean either and replacing technology that still works can itself be a mistake. However, safe disposal isn't the only consideration here because a quarter of the operational emissions from cold storage actually come from leaking refrigerants. One relatively simple way to reduce operational carbon is therefore to undertake regular maintenance and repair of equipment.

Over 99% of the UK's cold storage is devoted to serving the retail and hospitality sectors. Such is the increased demand nationally that 17million sqft of cold storage warehouses are under construction in 2022, with 75% to be occupied by retailers themselves and the remaining occupied by 3PLs or producers<sup>9</sup>. Grocery chain Iceland estimate their annual refrigerant emissions at 15,400 tCO<sub>2</sub>e, for which they are devoting significant resources to resolving. If we consider that the brand only accounts for 2% of the UK's supermarkets we get some perspective of the challenge the industry faces in resolving this specific issue.

<sup>8</sup>Paul Hawken, Drawdown

<sup>9</sup>[https://www.savills.co.uk/research\\_articles/229130/307136-0](https://www.savills.co.uk/research_articles/229130/307136-0)







## 6

## PRODUCT REUSE, RECYCLE AND DISPOSAL

*Extending the life of materials reduces embodied carbon and waste. In the future products will be manufactured to ensure they can be disassembled and/or recycled at a later date.*

The Ellen Macarthur Foundation predicts that the circular economy will be worth almost £440bn per annum by 2025, providing an opportunity for sales and growth that businesses can pursue while reducing their impact on the planet. Meanwhile however, the equivalent to one refuse lorry-load of clothes is burned or buried in landfill every second across the globe. The European Commission has put forward a major environmental proposal that could fundamentally change product design and the market for hardware products, in an effort to encourage circular economy within the EU. At the core of the plans is a new legal framework, including requirements for all physical products to be more durable, reliable, reusable and repairable, which would reduce the environmental impact of consumers and save energy.

There are several key ways retailers can embrace the circular economy<sup>11</sup>: redesigning products so they can be disassembled and reassembled, promoting reuse or recycling of waste, or enabling local systems for rental or resale. McKinsey has suggested that 40% of clothing produced ends up discounted due to over production and that retailers could afford to rationalise ranges and produce less without it having a detrimental impact on the bottom line. So perhaps a somewhat radical solution is to produce less stock in the first place.



<sup>11</sup> See The Cost of Waste article p.102

## 5

## GETTING GOODS TO SHOPPER (OR SHOPPER TO GOODS)

*Enabling sustainable transport in either direction and facilitating 'trip chaining'.*

As part of the wider agenda it is no longer true that carbon counting stops the moment a product leaves the store. A retailer's emissions include home delivery, so logically also includes the journey a customer takes to and from a store. A debate is raging on whether shopping online or in store is greener. A study by ACS found pureplays to have double the climate impact of traditional retailing<sup>10</sup>, while GenerationIM concluded that in the US online shopping is 17% more efficient than visiting traditional stores. So which is true? There are clearly arguments for and against, the weight given to each side appears to depend on which side of the fence you operate!

For online, there are certainly issues around environmental cost of returns, inefficient delivery routes or multiple drops at the same address, but as delivery vans move to electric vehicles, warehouses become more localised and routes become optimised this will improve and one driver making multiple deliveries is clearly better than

multiple drivers making a single trip. Assuming that in the next decade the majority of journeys are made using electric vehicles and that the energy used is green, the key differential seems to be the size of the basket, minimised returns and the distance to shop versus distance to warehouse.

Retail landlords can have a notable influence in the low carbon usage related to instore visitation through the facilitation of EV charging points, or embracing sustainable transport solutions. However, a less obvious solution is through curating a more mixed-use tenant line up, which is a nod to the Repurposing Retail agenda and the occupational benefits that arise from a better blend of uses that cross-pollinate footfall, operate different dayparts and extend dwell time. Apart from the economic benefits, 'trip chaining' has a key environmental benefit because a consumer needs to make fewer journeys in order to fulfil a range of social, shopping, or service based needs.



<sup>10</sup> pubs.acs.org/doi/full/10.1021/acs.est.9b06252





# THE COST OF WASTE

## BUILDING CIRCULARITY INTO RETAIL OPERATIONS



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### OUR USE OF 'STUFF' IS UNSUSTAINABLE

Twenty years ago, over 50 billion tonnes of raw materials were extracted from the environment each year for construction, agriculture, transport and the manufacture of consumer goods. By 2020 this rate had doubled to over 100 billion tonnes a year and is forecast to further rise in the future as global populations and incomes increase.

This level of raw material extraction far exceeds the Earth's ability to replenish natural resources, especially given that less than 10% of the material extracted from the environment will be captured for recycling. Evidence for the consequences of this material use and loss is increasing and ranges from the carbon emissions embodied in material extraction and use, the pollution from mining and manufacturing, and ecosystem damage from the escape of waste materials into natural habitats. Public awareness of the impact of plastics on marine ecosystems, for instance, has increased significantly in recent years (thanks to the Blue Planet Effect) and governments around the world are legislating in response.

The materials that are bought and disposed of have significant climate impacts. Currently only 45% of overall household waste in the UK is recycled, while 70% of packaging waste is recycled.

### CIRCULARITY IS AT THE HEART OF CHANGE

Principals of the Circular Economy stand in contrast to the linear economy (take, make, use, dispose) that has marked society over the last century. It is the idea of keeping products in use for longer and allowing for easy recovery, reuse and recycling at the end of their life. Products built with circular economy principles have lower greenhouse gas footprints, require fewer resources and produce less waste than conventional products.

Take textiles, which account for approximately 5% of the national household waste composition, by weight, yet emissions associated with their production make it one of the most environmentally damaging waste streams with 10% of all global emissions derived from the fashion industry alone. Currently, 87% of the raw materials used for clothing are incinerated or disposed of in landfill. Fortunately, this is beginning to change.

In France, new laws prohibit the disposal of unsold or returned clothing, luxury goods and electrical items with all such products now having to be reused or redistributed, or as a last resort, recycled. France already prohibits unsold food from the retail sector from being thrown away, instead requiring it to be distributed to charities.

In the UK, new requirements acting on the retail sector include restrictions on the use of single-use plastic items, taxes on plastic packaging without recycled content and a Right to Repair that requires manufacturers of white goods and home entertainment appliances, including televisions, to make spare parts available. Manufacturers of electrical items are increasingly designing with circularity in mind, including using recycled and recovered materials in their products, and even creating entirely new waste management processes to make it easier to recover materials from electrical waste.

Half of the UK's 5 million tonnes of annual plastic use comes from packaging, with retail seen as a key contributor. Packaging waste is consequently a key focus area and new legislation is planned that will pass the cost of packaging waste collection and recycling on to the producer. Many brands and retailers are already working to reduce their use of plastic packaging, shift to plastic free packaging or even redesign their products to require less packaging overall.

### RETAIL MODELS FOR ADDRESSING WASTE

As businesses start to respond to these calls to change, and the benefits of more efficient resource use become clearer, entirely new business models are emerging devoted to capturing and recovering the value in materials that would otherwise have been disposed of as waste.

Loop, a global reuse platform, has partnered with brands including Coca Cola, Unilever, Procter & Gamble and Nestlé to offer products in high quality, robust packaging. Once used, the packaging is returned, cleaned, refilled and reused, preventing the generation of single-use packaging as waste and reducing overall packaging material use. Initially launching as an online store, Loop is now embedded in a range of retail partners including Tesco, McDonalds and Burger King, who now offer products in Loop packaging that can be returned for reuse.

Takeback programmes, where products are returned to the retailer for reuse or recycling, are becoming increasingly common and span fashion to homewares. The Marks and Spencer Shwop initiative, launched in partnership with Oxfam, aims to tackle the 336,000 tonnes of clothing that is landfilled each year and allows consumers to return unwanted clothing to M&S stores where it will be resold or recycled into new fabrics. In return shoppers receive a thankyou benefit through their M&S loyalty card. IKEA, who estimate that a million pieces of furniture go to waste each year, run a buyback programme that allows consumers to return bookcases, tables and chairs to IKEA for resale, reuse or recycling. In return the consumer receives up to 50% of their original value for use on new IKEA products. Costa coffee have introduced a cup recycling initiative where people can dispose their cups irrespective of which coffee brand the cup was purchased from.

Whether these are driven by policy, corporate ethics or consumer sentiment, it's a step in the right direction, but is enough genuinely happening across the industry to make a difference?



# 55%

OF FOOD WASTE  
IS STILL EDIBLE  
WHEN IT IS  
THROWN AWAY



### THE ROLE OF LANDLORDS

Opportunities to implement circular economy principles are not exclusive for retail occupiers. Both landlords and managing agents have a positive role to play in creating the conditions to allow circularity to take root.

At King's Cross in London, a mixed-use development with a major retail element, Argent LLP has adopted a sustainability programme that, among other things, aims to be waste free by 2030. Savills has been working with the business on several projects to support this goal, from relatively simple initiatives such as implementing food dryers to manage food and coffee ground waste, to more challenging ones, such as trialling a reusable food and beverage packaging solution and implementing an innovative new waste operation that will allow the weighing and tracking of all waste streams from all occupiers. This aim is to enable the data-led identification of issues - especially within retail where there are low levels of segregation and high levels of contamination - and provide targeted advice and signposting to goods and services that can help retailers drive down waste.

Unsold and unwanted food is a major component of the waste generated from retail and mixed-use developments. WRAP estimates that over 3.6 million tonnes of food is wasted by the food industry each year, and Fareshare estimates that at least 2 million tonnes of this (enough for 1.3 billion meals) is still edible.

Landlords and managing agents, working in partnership with occupiers, can support and enable this and even introduce these services on a scheme-wide basis, scaling up the impact and benefit whilst reducing the cost of food waste management. At Fosse Park in Leicester, the centre management team has worked with Fareshare to encourage occupiers to donate unsold food to the charity and use Too Good to Go to list unsold items. In the first month over a thousand pre-packaged bags were collected along with enough food to make eight thousand meals.

Because these initiatives often tie in with communities' and shoppers' demand for improving every aspect of environmental impact, there are associated social impact benefits; ticking the S as well as the E in ESG, even if this is related to an occupiers' waste rather than specifically the landlords'.

***"100 billion tonnes of raw materials are extracted from the environment each year for construction, agriculture, transport and the manufacture of consumer goods... less than 10% of this material will be recycled."***

Image source: King's Cross c/o John Sturrock



### SHOPS CAN BE CIRCULAR TOO

There is a good case for circularity in building design and construction, and the benefits of reuse over redevelopment in terms of raw material use and whole life carbon are keenly debated. These benefits extend to refurbishment and fit-outs where an increasing array of fixtures and fittings can be specified with recycled and recovered content and where everything from carpet tiles to lighting can be leased instead of purchased and returned to the supplier when no longer needed for refurbishment, reuse and recycling.

In retail schemes, fittings, fixtures and shop fitting items are another key source of waste with some buildings expected to experience 30 or more refurbishments over their lifetime. This material is heavy, bulky and expensive to dispose of and historically has been difficult to recycle. A growing number of reuse platforms including Globechain and Warpit have emerged to connect the producers of these items with small business, charities and educational institutions who will give them new life and avoid the creation of waste. Globechain estimates that through its platform alone almost 5.5 million items have been diverted from landfill, avoiding £85 million in waste management costs and benefiting over 3 million individuals.



Taken together, the retail sector has a unique opportunity to drive circularity, not least given the embodied carbon associated with their shop fits. Of course, much more needs to be done and the industry needs to avoid greenwashing via headline grabbing initiatives rather than through genuine and wholesale changes across their business.

By redesigning products around circular economy principles retailers can reduce demand for raw materials and recover value from their supply chains, and by working with landlords and managing agents they can transform the locations they operate from into circular spaces that are more efficient and demand less from the environment. The future is not only bright; it's circular.



# THE PLACE OF GREEN LEASES IN RETAIL

## WHAT SIGNIFICANCE WILL THESE AGREEMENTS HAVE IN RETAIL PROPERTY IN THE FUTURE AND HOW CAN THEY BENEFIT OCCUPATIONAL RELATIONSHIPS?



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### WHAT IS A GREEN LEASE?

While there is not an internationally standardised model of classifying leases as 'green', they are broadly understood to refer to a lease or supplementary agreement that includes clauses intended to help manage and improve the environmental and social performance of a building. Green leases are predominantly about a landlord's desire to reduce their Scope 3 emissions; those outside of their direct control and related to tenant activity. They are intended to influence improvements to energy usage and waste, which if not combatted can negatively impact on a landlord's ESG credentials, as well as those of the occupier.

Green leases vary in their objectives, but the key components typically require:

1. A declaration of commitment by both the landlord and the tenant to operate the building sustainably. This includes things such as reducing energy consumption, emissions, resource and waste.
2. An agreement in place that sustainability data will be shared in both directions to facilitate optimal performance.

A green lease can do much more than just improve environmental performance and manage compliance. Using data collection, it has the potential to enhance an organisation's reputation through benchmarking, improve the wellbeing of the building's occupants, attract and retain talent through shared core values, and provide assurance for tenants that their ESG priorities will be met.



Green leases have the potential to create advantages for both parties, turning a historically transactional relationship into a supportive and collaborative dynamic, with both parties working collectively to tackle a long-term issue and improve the performance of a building through fostering better communication and providing a platform for discussion.

### IMPLEMENTATION REQUIRES COOPERATION

With the occupational market as it is, landlords might, despite best intentions, lack the leverage to install green clauses into new leases should the retailer refuse to agree to them. A landlord's success rate of implementation could vary significantly by location. Adding these clauses into existing leases could prove even more challenging, particularly when dealing with a multi-tenanted building with different lease lengths. Beginning a process to change the lease of some tenants and not others will have implications for service charges, which are difficult to manage. Furthermore, the protections provided by the Landlord and Tenant Act 1954 mean that lease renewals must be provided substantially on the same terms as the existing lease, making the introduction of new green lease clauses impossible.

Just how legally binding green leases are remains to be seen. In many cases it might prove to be more about providing a framework within which the landlord and tenant agree to behave. Or perhaps the obligation to co-operate is legally binding, whereas the actual outcome is not. Some of the terms point more to a responsibility to act in as sustainable approach as possible, but the language tends to be flexible on whether this would come at an additional cost to the tenant.

More ambitious green leases might include obligations and targets formalised through Heads of Terms which become legally binding, with a breach resulting in financial penalties or a dispute resolution process. However, even if binding, many 'green' clauses may be difficult to enforce. Duties to exercise 'reasonable endeavours' and to 'cooperate' lack specificity and may not be satisfactorily enforceable in English contract law, and as such are difficult to prove if breached.

Both parties need to buy into the mutual benefits of collaboration. The key obligation from the tenant should be to co-operate with the landlord's reasonable environmental initiatives aimed at improving the environmental performance of the building, unless this would materially increase the tenant's costs of operating its business.

### WHO BENEFITS?

It has been found that the majority of an average commercial building's greenhouse gas emissions and environmental impacts come from tenant-occupied areas. Therefore, the best way to reduce negative impacts and improve the efficiency and productivity of the whole building is through collaboration between tenant and landlord. Retail tenants with their own ESG policy are likely to want to make improvements anyway, although that doesn't mean tenants will automatically be compliant.

As well as having their own challenges in reaching a net zero future, retailers continue to face major headwinds that significantly reduce profitability, not least the fact that more than 90% of their emissions are often associated with manufacture, logistics and storage rather than their actual shops. A more environmentally friendly fit-out of their store may have a high cost, but in turn reduce the cost of operating the space; yet the environmental performance of stores might not be at the top of their priority given the investment required to reduce the carbon footprint of their Scope 3/supply chain. Tenants with business rates or service charges may also see this as another financial burden that benefits the landlord more than the tenant.



### WHO IS USING THEM?

With attention on sustainability factors increasing, green leases are set to become the market standard in the UK market, although are not yet commonplace. There is little evidence that green leases have gained any traction in Europe to date.

The Better Building Partnership (BBP) has provided leadership on green leases as a tool to improve the sustainability of existing commercial buildings. So far, the evidence shows they are most likely to be promoted by the landlord and are more prevalent in offices than in the retail sector.

However, there are an increasing number of examples where corporate responsibility acts as a key driver for occupiers – such as Marks & Spencer, who has been adopting green leases for some time. Brands that have their own published ESG or net zero strategy will find it hard to try and strike these clauses out of their agreements.

Green leases are moving up the agenda and are now standard at regional shopping centres such as Meadowhall in Sheffield. However, this isn't the experience seen in other parts of the market. There is a definite push back from many retailers, not least because they tend to result in additional costs. We've often seen retail landlords' clauses being diluted, and what actually ends up in a lease can be quite different to the Heads of Terms – if the landlord is desperate to get the occupier in, they will more readily concede green clauses.

Other landlords may take a harder line, especially the more institutional landlords, given their requirement to adhere to ESG agenda. It's no coincidence that Savills Retail Agency has secured green leases in deals with major landlords such as British Land, Columbia Threadneedle, Lasalle, L&G, M&G, New River, PGIM and Savills Investment Management (Savills IM). Yet on deals outside of key ownerships or brands, green leases are far less widespread.

So, as is often the case in the retail sector, the most progressive lease arrangements are likely to be within the highest performing locations and those with the lowest void rates. Green leases are unlikely to feature prominently in lower quality retail locations or those under fragmented ownership in the immediate future.

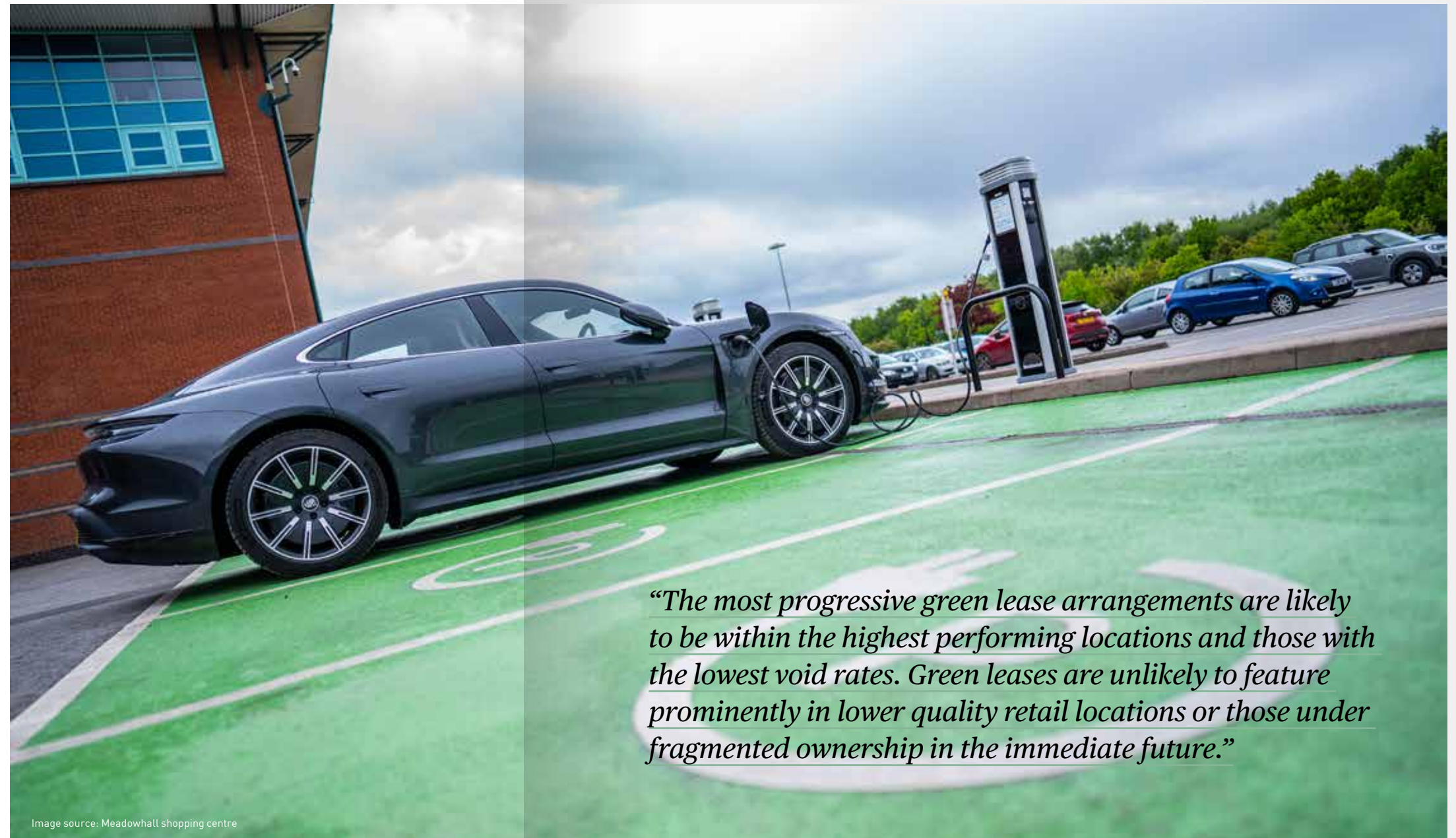


Image source: Meadowhall shopping centre

*“The most progressive green lease arrangements are likely to be within the highest performing locations and those with the lowest void rates. Green leases are unlikely to feature prominently in lower quality retail locations or those under fragmented ownership in the immediate future.”*

### WILL THEY BECOME COMMONPLACE?

We have mixed experiences of landlords getting these through. In our view, both landlords and occupiers can benefit from applying the various types of green lease clauses. If property owners and occupiers are to deliver against sustainability and carbon commitments and live up to the promises made to future generations to protect the environment, it's clear they need to work collaboratively to achieve substantial improvements in operation and behaviour.

There is little doubt that green leases will become part of standard lease terms rather than something unique. The Savills IM Annual Sustainability Report 2019 revealed that 73% of institutional investors see green lease clauses being universally implemented between tenants and real estate investment managers by July 2029, with an average consensus pinpointing September 2026.

This prediction is only slightly behind claims made by the United Nations-supported Principle for Responsible Investment (PRI) Investible Policy Response project. This project anticipates that governments across the globe will significantly step up their policy responses to tackle climate change from 2025 onwards and notes that compulsory green leases would be a highly effective instrument.

As 80% of buildings standing today will still be in use in 50 years, tackling the sustainability of real estate cannot solely be focused on design and construction of new buildings. It's imperative that we consider the sustainable long-term use of existing assets and how they're adapted: green leases are just one tool that will help us reach this goal.



# WHAT

## IS THE INDUSTRY DOING?

### WHAT ARE BRANDS IN THE UK & EUROPE DOING TO REDUCE THE CLIMATE IMPACT OF THEIR STORES?

In reaching their sustainability ambitions, how are retailers led by ESG, shoppers, or investor appetite? It is fair to say that the response to date has been a mixed bag, with plenty of retailers striving to make positive progress, but a distinct lack of activity from others. Progress seems often correlated with the motivations of their consumers, whose priorities vary depending on which retail category they are purchasing and the price point they are willing or able to pay.

Data from the British Retail Consortium indicates that the 70 UK retailers signed up to their Climate Action Roadmap have cut their carbon emissions by 49% since 2005, ahead of the 25% target the industry had set for the period. Carbon emissions in retail stores dropped by 46%, while store delivery emissions fell by 84% during the same period. Retailers signed up to the roadmap pledge to decarbonise their stores by 2030, their deliveries by 2035 and for their supply chain to reach net zero by 2040. This is clearly a positive step forwards, particularly for their store estate because it is largely in tune with the needs of major landlords to reduce the impact of their estates.

Retailers can play a central role in helping shoppers make the transition to a low carbon lifestyle. The largest brands need to lead by example to help inform, educate and motivate other retail occupiers to travel on the same course. There are lots of excellent initiatives, but the industry needs to be careful that 'greenwashing' via modest consumer friendly projects doesn't overshadow the further work that needs to be done at every level. Food and product sourcing and cost of living are having a major impact on retailer profitability and focus, which could waylay the intentions of some brands to make progress in improving their green credentials. Here we outline some of the initiatives seen in different retail categories.



## Iceland



## WAITROSE & PARTNERS

Almost 10% of the UK's BREEAM certified retail stores are from the 'Big Four' grocers (Tesco, Asda, Sainsbury's & Morrison's), with a further 13% from Waitrose stores and 6% from discounters Aldi and Lidl. In all, 7 major supermarket chains account for 28% of BREEAM certificates, highlighting the benefits of owner occupation for retailers driving sustainability within the retail buildings they trade from. However, these certifications only account for 0.5% of supermarkets (and excluding convenience stores) so in reality it remains a largely insignificant proportion of the market that is BREEAM rated.

Which? has ranked Lidl and Waitrose as the most environmentally-friendly grocers in the UK. The consumer group analysed eleven of the country's largest brands on their greenhouse gas emissions, food waste and use of recyclable plastics. Lidl scored highly for its reduced greenhouse gas emissions and single-use plastics policies, whilst Waitrose was rewarded for using the least amount of plastic for the number of items sold.

Frozen food grocer Iceland scored lowest of the grocers assessed, which was attributed to the amount of power required to run the retailer's freezers. Energy usage from refrigeration offers a considerable challenge for all grocers, but particularly for those relying disproportionately on chilled goods. So, does this make the Which? survey a fair comparison? Iceland buys 100% renewable electricity for all its UK sites and when optimal to do so is replacing its refrigerators with units that consume 30% less energy than older equipment and use more natural refrigerants and cleaner gases. Clearly, the embodied carbon within existing refrigeration units mean that it isn't as simple as throwing the old ones away if they are still operational.

Iceland's sustainability charter shows that beyond the challenges faced around chilling food, the chain has been making inroads in reducing its environmental impact across its operations and supply chain. DEFRA administers energy reduction targets on Iceland's depots via Climate Change Agreements that have

been exceeded each year since 2015. The brand is signed up to the BRC Climate Action Roadmap and a signatory to the Courtauld Commitment 2030, which brings together organisations across the food industry with the shared target of reducing absolute greenhouse gas emissions by 50% by 2030. The grocer has committed to being net zero by 2040 and published in its latest Carbon Report that in 2020/21 its Scope 1 & 2 carbon emissions had reduced by 74% against its baseline year of 2011/12; equivalent to an annual reduction of 184,000 tCO<sub>2</sub>e, despite growing sales by 36% and adding 181 (net) stores over the same period.

Iceland's data indicates only 4.5% of their emissions are operational carbon (Scope 1 & 2) and that a considerable challenge needs to be done both up and down stream with suppliers and customers to bring down the 95% that are within Scope 3. This will include other forms of environmental impact such as packaging. The supermarket has also committed to remove all own label plastic packaging by 2023, but will largely rely on the will of its other suppliers to make this a realistic proposition over the entire product range.

What the Which? ranking fails to incorporate into its index is the vision, breadth and ethos that now sits within Iceland's corporate backbone. Iceland's Managing Director and self-proclaimed 'corporate activist' Richard Walker states that he only took the helm of the family business because he felt he could balance the objectives of environmental and social impact with profitability and business growth<sup>1</sup>, avoiding growth in one area that limits another; he has subsequently received an OBE for his environmental campaigning. Iceland do not claim to have figured out how to solve all the issues within their supply chain, but are pragmatic, transparent and wide reaching in their approach in a way that arguably makes them one of the more environmentally 'friendly' grocery chains to date. Critically, the brand believes that these objectives can remain affordable and accessible to all customers and not just more affluent ones.

<sup>1</sup>The Green Grocer





IKEA has one of the most comprehensive sustainability strategies within the retail sector and is also refreshingly honest and frank in its outlook, objectives, achievements and failures; identifying pinch points and opportunities from sourcing all the way through to the way in which customers use and dispose of their goods.

IKEA plans to transform into a circular business and be Climate Positive by 2030, which means: "To reduce more than we emit, we will contribute to additional reductions in society by taking an extended responsibility for the climate footprint of our customers, suppliers and in our sourcing areas – not just the part that we can account for as part of the IKEA climate footprint." The retailer's Sustainability Report and Climate Report<sup>2</sup> detail the plans and investment being made, which is too expansive to summarise in brief, but makes for interesting reading.

The brand appears to be putting its money where its mouth is, having confirmed plans to accelerate its investment in renewable energy by spending €4bn by the end of the decade include building wind and solar farms. The fresh investment by Ingka Group, owner of most IKEA stores, will bring the company's clean energy spending to €6.5bn by 2030 and include its first steps into energy storage, to help make better use of its renewable energy generation, electric vehicle charging infrastructure and hydrogen fuels to help cut the emissions from its fleet of delivery vans.

The largest portion of the IKEA climate footprint comes from raw material extraction and processing (52%) and product use in customers' homes (17%), which includes the energy consumption of lighting and appliances over the lifetime of a product. Key investments are being made in using recycled timber and making improvements in the quality and efficiency of its products to ensure longer life and lower running costs.



With respect to the direct impact of its shops, in the UK 30% of IKEA's stores have a BREEAM certification. In 2021 the brand achieved the goal that all of its global IKEA-owned factories consume only renewable energy; a challenging proposition in markets like China and India where renewables account for a small proportion of available electricity. Their stores and warehouses only account for around 3% of their carbon footprint, yet the brand is also determined to clean up their Scope 3 emissions, which account for the other 97%.

"We don't have all the answers and can't achieve our goals alone. We recognise, however, that most things remain to be done. Not all climate footprints are heading in the right direction, including those of our stores, our transports and the materials used in the IKEA range. With eight years to go before our 2030 goal, the required longer-term movements have been identified and integrated into IKEA business plans."

Given its global reach, IKEA's sustainability targets provide an important benchmark for other brands to emulate, not least because of its transparency and willingness to admit the more challenging aspects of going green across the supply chain. The last 5 years have seen global revenues increase by 15% and climate footprint per sales unit reduce by 8%, which raises an interesting dilemma in how a business continues to grow revenues while reducing impact. IKEA seem unthreatened by the idea that longer lasting products that are part of a circular economy having either been made from recycled materials, or reused or recycled after their useful life, will win the trust of consumers and support rather than inhibit growth.

<sup>1</sup> <https://about.IKEA.com/en/newsroom/2022/01/17/sustainability-report-fy21-and-climate-report>





# ZARA H&M patagonia®

Fashion production releases 10% of the world's carbon emissions, is responsible for 20% of all water pollution worldwide and by 2030 the annual global waste from textiles is estimated to reach 148million tonnes. With regards to sustainability, BCG believe a third of the fashion industry is yet to take any action. Business of Fashion Sustainability Index has shown that the sustainability credentials of the world's top fashion brands have actually declined since 2021. The thinktank Planet Tracker has warned that the fashion industry has a "serious misinformation problem", with companies relying on zombie data to badge products as sustainable and environmentally friendly. Green washing is said to be rife, with valid and important sustainability innovations being used to mask otherwise environmentally or socially damaging activity.

Affordable and fast fashion in particular is considered to have the greatest environmental impact within the fashion industry, yet has grown astronomically as a global business over the last two decades, worth £30bn and expected to reach £240bn by 2030. So with the appetite for affordable, disposable goods appearing to be unabated, is it even possible for large fashion brands to fully adapt to the sustainability agenda and environmentally conscious shoppers? Beyond the products sold, clothing retailers can do something to improve the carbon footprints of their shops and warehouses. While that is only part of the wider problem, it does hold value for the real estate industry if we are to bring down the carbon impact of the built environment.

As one of the largest fast global fashion brands, H&M acknowledges there is a lot of work to do across its entire supply chain in order to reach a net-zero future. The retailer aims to have 30% recycled materials in their products by 2025 and 100% by 2030.

H&M's Garment Collecting programme, which encourages consumers to drop off any unwanted clothes in-store in exchange for a voucher, is the "largest in the world" since being rolled out globally in 2013. In 2019 alone, the scheme collected 29,005 tonnes of unwanted clothes and textiles; equivalent to 145million t-shirts. Additionally, customers in 24 markets can now shop second-hand garments through Sellpy, of which H&M Group is a majority shareholder.



However, while the brand offers several more sustainable options, the majority of its clothes aren't eco-friendly and given the global scale of their operations this means considerable potential for further increases in waste and global emissions. It should be emphasised that H&M isn't alone with this dilemma and is making some inroads. The introduction of the Green Machine developed with the H&M Foundation may prove a game changing technology for the fashion industry, if it can be implemented at scale, as it enables low energy 'clean' recycling of multi-blended materials that could otherwise not be reused.

For the buildings they operate and the products and materials used within them, H&M's aim is to reduce CO<sub>2</sub>e emissions from operations by 56% by 2030 and all store interiors designed to be reusable, repairable or recyclable, from 2021. Currently, 31% of interior materials shared via their online sharing tool are reused.

In partnership with ARUP, H&M is assessing the lifecycle impacts and life expectancy of store formats with an aim to establish a carbon emission baseline (average kgCO<sub>2</sub>e per m<sup>2</sup>) for the brand's shops. These activities should give a clear picture of the climate impact and priority action areas for their stores. Other initiatives include partnering with Biomason and Unilin, who supply lower climate impact store tiles, recycled wood fibre boards and more sustainable use of concrete to reduce embodied carbon in building materials. 92% of waste handled in H&M distribution centres was recycled or reused in 2020.

Zara has similar challenges with its products as H&M and has developed its own roadmap on the path to being net-zero by 2040. This includes 50% of products to be part of their Join Life range and moving to 100% renewable energy by 2022, 100% zero-waste and 100% reduction in single-use plastic by 2023, plus 100% sustainable textiles and materials by 2025. According to its sustainability statement, all stores are 'eco-efficient', meaning they consume less energy and water than conventional stores and have to work within standards outlined in their Eco-efficient Store Manual. All wood, paper and bags used in store are from sustainable sources and FSC or PEFC rated. Shops are working towards LEED certification status and new stores being designed to have a lower environmental impact.

While most of the large fashion brands, or indeed global brands in other retail sectors, are undertaking a range of initiatives, what isn't clear is how many of these initiatives are being applied across multiple geographies and whether they are being truly implemented at scale.



With stores in more than 10 countries, Patagonia is recognised as one of the most sustainable global fashion brands, with almost 90% of materials recycled, organic, or ethically sourced. Their transparency into the supply chain has helped them be credited to have "a sustainability strategy devoid of greenwashing". It demonstrates how it is possible to be 'greener' at scale, although the products they sell are not cheap or suited to all consumers. Providing goods that are both 'affordable' and 'green' remains one of the fashion industry's biggest dilemmas.

*"Fashion production releases 10% of the world's carbon emissions, is responsible for 20% of all water pollution worldwide and by 2030 the annual global waste from textiles is estimated to reach 148million tonnes"*



# CHAPTER 5

## STAKEHOLDERS & POLICY MAKERS

THE ROLE PUBLIC AND  
PRIVATE SECTORS HAVE  
IN IMPROVING RETAIL  
PLACES





# THE POLICY GAP

## HOW IS POLICY IMPACTING RETAIL PROPERTIES AND WHY DOES IT NOT GO FAR ENOUGH?



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### CURRENT POLICY

As the negative effects of climate change are becoming more apparent, countries around the world are under increasing pressure to cut their carbon footprints. The UK was the first major economy that committed to a legally binding target of net zero emissions by 2050, but more progress needs to be made in issuing relevant policies to achieve this.

The UK government has developed plans to improve the energy efficiency of all retail buildings by mid-2035. However, there are significant gaps in the regulations, and policy has not provided the stability or long-term vision that will enable the industry to make a smooth transition to a low carbon economy. Rather than setting sustainability requirements, policy efforts that relate to commercial properties have been focussed on improving the standards of existing buildings.

While it's critical to reduce the impact from buildings, there are still major barriers to retrofitting, identified by the UK Green Building Council, which apply across all sectors:

- High upfront costs, particularly for the newest technology
- A lack of finance mechanisms and a lack of a coherent offering for institutional investors
- No fiscal incentives
- Limited loan and grant schemes that have prioritised specific measures and prevented a whole building approach
- Insufficient capacity of materials, kit or personnel required to meet these targets.

Currently, most government funded initiatives are focussed on the residential sector. If it is not cost effective for the private sector to improve and upgrade existing stock, which a significant proportion of retail property is unlikely to be, are we at a stalemate, and how do we move forwards?

In its 2019 Progress Report to Parliament, the Climate Change Committee (CCC) stated that the building sector lagged behind other CO<sub>2</sub>-intensive industries and recorded a mere 1% drop in carbon emissions between 2013 and 2018. Although the emissions subsequently plunged during the pandemic, the long-term outlook for the sector is uncertain. According to the net zero policy tracker published by Green Alliance in September 2021, current decarbonisation policies will only deliver a 36% cut in emissions needed to stay on track to net zero during the fifth carbon budget, which will run 2028-2032. Including effects of policies that are currently out for consultation would increase the reduction in emissions to just over 50%.

So, what are the key policies related to retail property and where are the gaps?

### EPC, HEATING & MONITORING

The EPC policies setting the timeline for improving the efficiency of commercially let properties by 2030 will impact around 83% of retail property stock, but the details of the scheme still need to be refined. There are various issues with certification even before implementing improvement. For instance, the proposal is for commercially rented buildings to be EPC 'B' by 2030, assuming upgrades are 'cost effective'. This appears to be a significant caveat, as financial viability is a major sticking point, and the cost of improved efficiencies will often not be paid back in fuel savings even over the long term.

Problems can arise where a landlord lets a unit in a stripped-out condition and the tenant's fit-out decreases the final EPC rating below the level required by law. Given high demand for heating and cooling in retail, this could potentially be a common issue. The Department for BEIS<sup>1</sup> will therefore need to define legal responsibilities of both tenants and landlords. Although the Government has announced its intention to support small and medium-sized businesses, few assisting measures have been taken. Meanwhile, fiscal incentives are missing, and available grants are tied to specific conditions and generally not fit for the purpose. There is currently no decarbonisation scheme for landlord-occupied non-domestic buildings even though they account for 60% of the non-residential sector. Additionally, commercial buildings that are owned, not leased, are not covered by current EPC policy proposals, so who will be responsible to get these to grade if there isn't any legislation to guide the process?

As the vast majority of buildings emissions result from heat, the Government has primarily focused on policies adopting low-carbon heating solutions. As part of its plan to only install clean systems in buildings from 2035 onwards, it has decided to start hydrogen trials from 2023, consult on the role of hydrogen-ready appliances and begin replacing fossil fuel boilers with electric heat pumps. In this respect, the Government has set an ambition to increase heat pump installations to 600,000 per year by 2028<sup>2</sup>. However, the CCC warns this will not be sufficient to meet either the 2030 Nationally Determined Contributions (NDC) target or the Sixth Carbon Budget. The deployment rates in non-domestic sector remain low, running at less than 1,000 installations annually. It is currently unclear how the Government intends to motivate businesses to increase installations, given that the

<sup>1</sup> Department for Business, Energy & Industrial Strategy

<sup>2</sup> CCC: Progress in reducing emissions. 2021 Report to Parliament

<sup>3</sup> <https://www.gov.uk/guidance/check-if-you-may-be-eligible-for-the-boiler-upgrade-scheme-from-april-2022>

<sup>4</sup> BEIS: Heat and buildings strategy



Renewable Heat Incentive for commercial pumps over 45 kW has been closed to new applications and partly replaced by the Boiler Upgrade Scheme (BUS) designated for domestic and small non-domestic buildings covering installations under 45kW<sup>3</sup>.

There are also clear problems with channelling policy on specific technologies at a time when significant innovation is underway and a more flexible approach is required. More attention needs to be given to the relationships between different initiatives: for example, the benefits from improved heating solutions are entirely negated if the buildings are not properly insulated.

Proper measurement of energy usage and efficiency is key to delivering on policy objectives. The Government has introduced a Performance-Based Policy Framework<sup>4</sup> for large commercial buildings, requiring businesses over 1,000m<sup>2</sup> to consistently report their energy performance. Data shows that there is almost no correlation between the actual performance of large buildings and their EPCs. This policy was therefore developed to establish a new way of assessing buildings' energy consumption and close the 'performance gap'. While the scheme will support building occupants to use their sites more effectively, and encourage investment into building fabric and systems, its scope is too narrow and improvement in performance is optional. It is also unclear when large retail players will be required to start reporting on their energy performance.



### INSUFFICIENT MOMENTUM, SUPPORT AND INCENTIVE

The Government has made a significant step forward by publishing vital documents such as the Energy White Paper, Heat and Buildings Strategy, and the Treasury's Net Zero Review. Yet the pace of the change is too slow and recent proposed policies do not match the size of the UK's climate change ambition. The Government has also recently published their Net-Zero Strategy – a key document that sets out the decarbonisation path for each sector. Although well-received and praised as “affordable and achievable”, long-term trajectories have been found to be vague. Subsector-specific plans and strategies, that would be particularly beneficial to retail, are also missing. Additionally, financial support in the form of loans and grants is insufficient, selectively applied and primarily focused on the residential sector.

As a result, motivated by the Paris Agreement, ESG metrics and pressure from their partners and clients, large retail landlords and investors are the ones currently driving change, with better access to funds and commercial advice enabling them to decarbonise faster. However, 75% of retail comprises smaller units in fragmented ownership with shallow pockets and resources. For these market participants, high upfront costs represent the main barrier to progress. In some cases, retrofitting might not even be feasible, which could result in asset stranding.

To help drive the transition to net zero, low-carbon options must be made financially attractive and existing funding routes replaced by better designed long-term funding programmes. To encourage efficiency updates, a long-term standards trajectory should be established. More details on how to phase out fossil-fuels could also be provided. Due to its complexity, retail real estate will need an industry standard decarbonisation roadmap<sup>5</sup> that would reflect its sector specific challenges and provide more flexibility as to how buildings with different uses can decarbonise. In addition, it is important that a framework addressing stranded assets will be introduced without a further delay and small retail units will be provided more government support and intervention to advance their decarbonisation processes. Finally, as companies increasingly implement energy saving measures, and their pool of options to decrease operational carbon is slowly diminishing, the Government should focus more attention on embodied carbon.

Other outside influences can also sway change; current retail and technology trends and geopolitical influences are likely to accelerate the transition to net zero. Responding to the war in Ukraine, European countries are urgently looking for ways to increase security

of energy supply, which is likely to accelerate policy measures in favour of more sustainable sources. In addition, high energy prices motivate companies to play their part and actively take steps to cut their energy consumption. For retail, the transition to alternative uses provides an opportunity to retrofit improvements, but there remains a polarisation in opportunity and action in the best and worst trading locations.

## PRESENT PROPOSED POLICIES DO NOT MATCH THE SIZE OF THE UK CLIMATE CHANGE AMBITION



<sup>5</sup> See The BRC Climate Action Roadmap article p.88

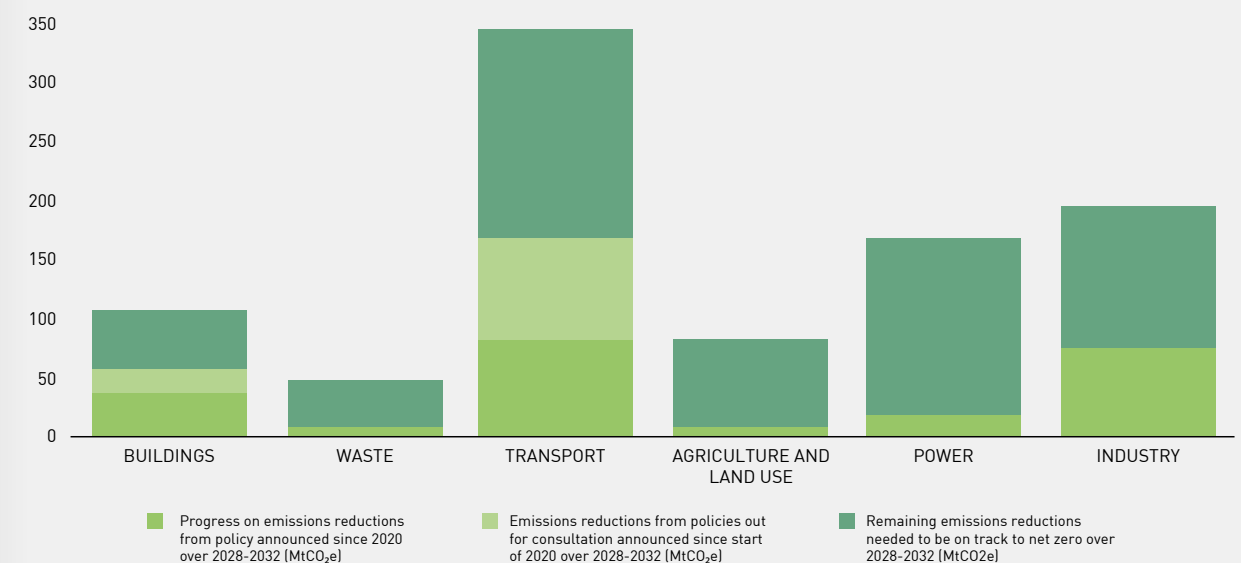
### BRIDGING THE GAP

Although retail transition to net zero will likely be aided by favourable trends and political events, the current policy and regulatory framework needs to improve to meet the UK's ambitious targets. It is now vital that the Government sets a clear direction, and approaches development, adoption and implementation of climate change policies with greater urgency, not least with regards to viability.

If the retail property sector is to achieve the targets currently being set for energy efficiency and carbon consumption, policy needs to develop in several key areas:

- 1 A consistent road map is needed that sets requirements across all sectors, not just certain tenures. This will create clear expectations, and encourage investors and occupiers to plan for long term change, while also making it more likely that green premiums or brown discounts will emerge and encourage behavioural change through market forces.
- 2 There should be greater consideration of how the tax system could be used to support businesses and individuals to make the transition to net zero. This could be critical for small or modest retail real estate owners.
- 3 The industry and government need to create clearer performance reporting requirements and a standardised data framework to draw increased private investment. There is considerable appetite from financial institutions to invest in decarbonisation, but more transparency around the performance of their investments would be needed to build scale.
- 4 As operational carbon emissions are reduced, embodied carbon will become an increasingly important consideration for regulators, developers and investors. A consistent carbon policy that sets targets and transparency requirements for new development will help investors manage risk. It will also give a consistent comparison point to assess whether it is more sustainable to hold and refurbish, or redevelop existing assets.

FIG. 1: REQUIRED REDUCTION IN EMISSIONS FOR THE FIFTH BUDGET PERIOD



Source: Green Alliance



# GREEN VALUATION AND FINANCING

## CHALLENGES IN RESPONDING TO THE ESG AND REPURPOSING AGENDAS



BY:

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### SUSTAINABLE TOWN CENTRE DEVELOPMENT

The UK retail landscape has been subject to significant change over the last 5 - 10 years and the Covid-19 pandemic has accelerated this change, with diversification of retail assets becoming prevalent. Lenders and investors are being increasingly influenced by ESG in their decision making, and landlords and tenants are also adopting ESG principles in the operation of their businesses. There are always challenges when valuing in a market where there is disruption; in relation to retail property, valuers are having to broaden their scope and skill sets to adapt to the challenges. What are the current themes we need to tackle?

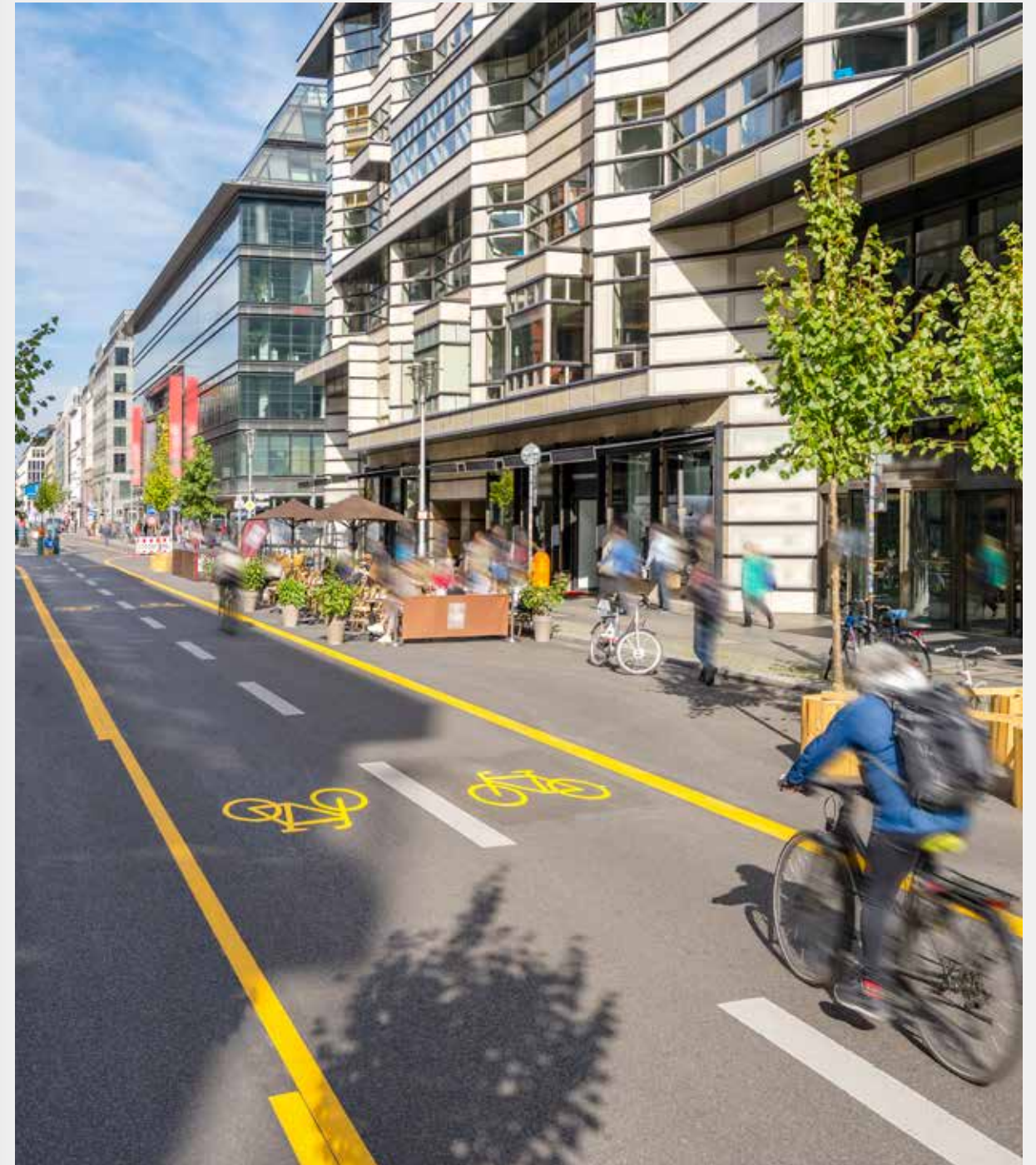
### REPURPOSING RETAIL ASSETS

Repurposing assets is an important response to the changing face of consumer spaces as well as for retaining long term investment values, but it's not without its challenges when it comes to valuation. While diversification of uses, assisted by the changes in planning use classes, will help the repurposing and revitalisation of retail assets, this model potentially creates a major headache for valuers.



Previously, use of commercial property was clearly designated to a specific sector and in order to change from one Use Class to another, planning permission was required. As property sectors have evolved and our use of real estate has become more fluid, this form of categorisation was no longer considered fit for purpose. In September 2020, the retail and office use classes were revoked and replaced with one Class E (Commercial, Business and Service) which also covers some uses previously defined in the revoked D Class. Now, a building with an E classification can be used for offices and retail (and several other functions), which is designed to simplify the repurposing process.

This significantly improves the adaptability of property which should help to reduce the risk of obsolescence and provide buildings that can evolve in an agile manner to best serve the demands of the local community. However, when these changes were first proposed, concerns arose around whether increased flexibility in the use of a building also expands the scope of work for the valuer. Should we just value on the basis of the current use of an E class unit? Or should we now be considering all other potential alternative uses?



In practice, we have yet to see any issues in relation to this increased flexibility. The valuer can only work with the information they have at the date of valuation i.e. the current and historic use of the property, and we are not being asked to assess alternative uses unless there are specific development proposals. A valuer can only reflect the market that they are working within, and therefore we will have to continue to closely monitor market activity to gauge any response to this expansion of potential real estate use going forward.

In our experience, we have been involved in a number of 'retail' schemes that did benefit from specific development opportunities and the valuation approach needed to be a little more fluid than the traditional approach to a shopping centre, with a more hybrid approach involving a traditional investment valuation with a cross-check approach that considered the underlying development opportunities displayed by the scheme.



## SUSTAINABILITY AND ESG

Valuers are also monitoring the expectations of market participants with regard to ESG and sustainability resilience. We are seeing widespread adaptation of Green Lending Principles and Sustainability-Linked Lending Principles across the debt markets, and in order to finance retail property investment and development, the ESG credentials of buildings will need to be demonstrated and monitored<sup>1</sup>. There have been a number of green finance products released, and also prominent credit facilities created between the larger clearing banks that are ESG-linked. Going forward, we expect to see adoption of Green Lending Principles and Sustainability-Linked Lending Principles becoming the norm in all finance products, rather than loans and finance being specifically badged as “Green”. We’re actively engaged with several banks in discussing how valuation and lending will align with ESG going forwards.

Retail property is inherently linked with the community, and therefore there is a great opportunity here for owners of retail property to not only improve the environmental elements of the building, but also to demonstrate under the social expectations the importance of their property with regard to community support and engagement.

As valuers, the RICS is now directing us to focus more on the impact of sustainability and ESG within our valuation advice, and therefore valuers will be looking for these characteristics and assessing whether there is an impact on value, based on market evidence. It is not so much about trying to prove green premiums and brown discounts, but considering the performance of a building against the expectations of market participants. The introduction of widely adopted benchmarks and ratings will be crucial to valuers. In the UK we are currently gauging energy efficiency through Energy Performance Certificates, a regulatory requirement that has subsequently seen adoption across all property markets. However, this does not enable us to assess operational energy performance, just the rating of the building on the day of the assessment. Keeping aligned with different approaches to certification is a clear challenge for the wider industry to insure the benchmarking and ratings are relevant.

One of the key challenges we are increasingly being asked to advise upon is with the potential capital expenditure required to reduce the risk of obsolescence as we move towards the 2030 deadline. The costs of meeting environmental regulations and certifications can vary significantly and requires assessment of what is practical, viable and how much additional funding is needed. This adds an entirely new dimension to the valuation process. With 83% of retail property requiring some level of improvement ahead of the 2030 deadline, this is likely to set the tone for the rest of the decade.

Clearly the market is focused on the benchmarks detailed above, but it is worth noting that sustainability management is a much broader topic; there are many other areas that can be referenced. In particular, climate risk is a good example, and we believe this to be another ESG issue facing valuations – for example, climate change modelling tells us that a property will be under the sea in 50 years, but as we can only do valuations on the current market, this is not currently factored into valuations.

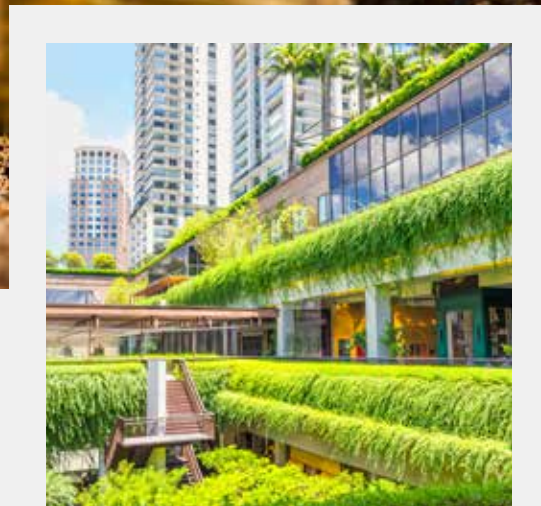
<sup>1</sup> See How can retail property demonstrate its green credentials? article p.26



## A NEW APPROACH TO VALUING RETAIL?

Rather than using an investment approach, there have been calls for retail property to be valued on a more operational basis. For example, trade related property (e.g. hotels) is valued on a profit basis: the valuer will not only consider the property but also the business linked to that property through examination of current and historic accounts data. Shouldn't we approach some retail in the same way, on the assumption the business and the property are interlinked? In some sectors, such as outlet store retail parks, there has been a use of turnover rents, where the rent is tied to the turnover of the business. However, there are complications with adopting turnover rents, one of largest being the analysis of online retail sales to provide a true picture of profitability and a reluctance from occupiers to provide full transparency.

There isn't a protocol for Green Valuation per se, but more an alignment with the principals of ESG that are likely to govern the valuation process going forwards.



Valuers are all bound by our commitment to Continual Professional Development as chartered surveyors, but there will definitely have to be investment in “upskilling” valuers in relation to all of these issues. We’re meeting these goals through increased collaboration between our own inhouse sustainability consultants Savills Earth and building surveyors, who meet these challenges every day, to allow us to provide insight on the unrecoverable expenditure required to meet changing ESG requirements. If, as expected, government regulation is tightened and the Minimum Energy Efficiency Standards are revised, we need to ensure that our valuation process is sufficiently fluid to adapt to these changes.



# PLANNING FOR A GREEN FUTURE

## WHAT ROLE DOES THE PLANNING SYSTEM PLAY IN DELIVERING MORE ENVIRONMENTALLY SUSTAINABLE RETAIL PLACES?



BY:

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### THINKING GREEN

Greening retail property isn't just about reducing the emissions of buildings and energy usage; it is also about rethinking the urban infrastructure with more diverse uses, better transport systems, densification and biodiverse spaces at its core. The planning system has an important role in delivering a 'green future' and it is doing a lot to assist in ensuring that future. Planning is the first step in terms of development delivery and has a central policy objective to deliver development that is sustainable.

Delivering a green future through the planning system therefore means acting on a number of existing, well-established policy objectives and those that are emerging, including densification of urban areas, delivering development on previously developed ('brownfield') land, enhancing biodiversity, supporting development that is accessible and can utilise more sustainable patterns of travel, and securing a pathway towards carbon reduction and 'net zero'.

As the planning system is concerned with regulating 'development' it isn't set up to deal with retrofitting existing buildings, where works that don't constitute development for the purposes of the Planning Acts aren't proposed, to enhance their green credentials. However, over the last two years, measures have been taken to simplify the use of existing buildings for alternative purposes through new planning legislation, which do have a positive effect in terms of supporting the delivery of a green future.

Can repurposing retail and town centre property and sites support these policy objectives to deliver a green future?

### REPURPOSING THE USE CLASS SYSTEM

The Government took a significant step forward in 2020 to support the reuse and reimagining of all retail and leisure floorspace with the introduction of a new Use Class Order in England that provided a radical shift towards flexibility and supports the repurposing of existing buildings. The legislation revoked well established Use Classes (A1-A5, B1, D1 and D2) and created a new Use Class E covering all 'Commercial, Business and Service' uses. Two years of challenges to the new system, in part from concerns on the implications of the new legislation on climate change, have been thwarted and Use Class E remains in place.

The key consequence is that changes between operations within the same Use Class is not 'development' and therefore does not require planning permission.

This is a substantial boost to delivering a green future for retail and leisure property as the removal of a previous barrier supports the reuse of existing buildings – rather than the creation of new ones. A large number of the buildings where this reuse for alternative uses can take place are typically located in city and town centres in close proximity to existing places of work and residential areas, along with being near to sustainable transport networks. This further enhances the positive effects that the new Use Classes Order has on supporting a green future for repurposed retail and leisure property and we are seeing increasing initiatives to repurpose former retail buildings in sustainable locations for new leisure, office, life science and medical uses.

### DENSIFICATION AND BROWNFIELD SITES

It's not just the reuse of existing buildings that planning can support to deliver a green future; the overall ethos of land-use planning supports minimising the use of natural resources. With that in mind, the planning system strongly supports development on brownfield sites, including vacant land and existing buildings. Such development is considered an efficient use of land that minimises impacts on the environment, with sites typically located within town centres and well-located urban areas. Space that is currently retail will certainly present opportunities for redevelopment going forwards and is already doing so.

Brownfield sites and the repurposing of existing buildings in towns and cities therefore present an excellent opportunity to assist in helping the UK reduce its environmental impact and carbon emissions. Developing brownfield sites supports reducing the requirement for development delivery on greenfield sites minimising environmental impact.

Due to their locations surrounded by existing infrastructure, brownfield sites present the opportunity to encourage and deliver sustainable patterns of travel to homes, employment, amenities and services. In particular, the delivery of development presents the opportunity to reduce carbon emissions through private car travel and create sustainable linked travel patterns across multiple uses (e.g. services and amenities) within urban areas.

Furthermore, city and town centres are places that can accommodate greater scale in order to support reducing transport and domestic emissions. Increasing density further can support that reduction in carbon emissions; Centre for Cities have shown how increasing densification in city and town centre can help in terms of achieving net zero<sup>1</sup>.

The planning system has a strong and well-established role to supporting brownfield development and densification. Planning policies have long held a strategic objective to support the delivery of development on brownfield land and to make as efficient use as possible of that land, given the environmental benefits that arise from development delivery on brownfield sites. National policy confirms that substantial weight should be applied to the value of using suitable brownfield land within settlements for homes and other identified needs. Decisions should promote and support the development of under-utilised land and buildings, particularly if this would help to meet identified needs for housing where land supply is constrained, and available sites could be used more effectively. In order to support densification in city and town centres, national policy also requires local plans to include minimum density standards for development in those locations.

Government has sought to support the above policy initiatives by bringing in new legislation through new permitted development rights that support the development of an additional two floors for residential purposes above existing retail and other forms of commercial property (including restaurant and office uses) in certain circumstances. After a period of bedding-in, we are now beginning to see this legislation being used. Its effect is that it supports densification and the use of brownfield sites which can all support meeting needs whilst minimising the impact of new housing delivery on the environment. This point has been echoed by a recent study by the University of Sheffield which confirms that vertical extensions could help to provide the housing needed in England's 20 biggest cities whilst also supporting high streets and city centre businesses, but importantly they would 'help to create low-carbon, mixed-use cities where people live close to the services and amenities they rely on'.

<sup>1</sup> <https://www.centreforcities.org/reader/net-zero-decarbonising-the-city/cities-need-to-become-denser-to-achieve-net-zero/>



### ENHANCING BIODIVERSITY

A central part of the Government's initiatives to delivering a green future through development is Biodiversity Net Gain ('BNG').

BNG is an objective to improve biodiversity from its current state. BNG is embedded within the Government's Environment Bill which received Royal Assent on 9 November 2021 and will likely form part of formal legislation under the Planning Acts by 2023. At this point, BNG will become a mandatory requirement which will require a minimum 10% net gain with any new habitats created secured for at least 30 years. Habitat improvements will be able to be delivered on or off site, with the preference being on site in the first instance or via a commuted sum where that is not possible.

It will apply to development on brownfield as well as greenfield land. Even though it is not yet legislation, national policy requires the consideration of BNG, and a considerable number of local policies are now in place requiring the same. It follows that the requirement for BNG will apply to planning applications for the repurposing of existing buildings.

There are easy and tangible ways in which town centre development, and the repurposing of retail space through the planning system, can deliver BNG. Often such sites are starting from a low or non-existent biodiversity base. Opportunities exist from green and brown roofs on developments, to building techniques that cater for incorporating nesting provision for birds, bats and insects, to enhanced green infrastructure including tree planting, green walls and enhanced and biodiversity-friendly landscaping. Where planning applications for repurposing of buildings have been required – for example, to create additional floors for alternative uses including office and student accommodation, we are beginning to see landlords and developers incorporate opportunities such as the above into their new developments. Soon this will be a mandatory requirement of most proposals that require a planning application.



### RACE TO NET ZERO

It's widely known that the UK Government's policy target is to decarbonise all sectors of the economy to meet a net zero target by 2050, with some regional locations seeking to meet this objective earlier.

Planning has, and is, playing a pivotal role in reducing carbon emissions. This has long been a key objective in delivering sustainable development. In its earlier guises this meant securing development in locations that promoted sustainable travel patterns, delivering buildings that improved energy performance, and seeking opportunities to deliver decentralised energy sources.

Additional to the policies mentioned above, we are also seeing planning taking a further role through new policies that specifically require 'net zero' buildings. For example, London led the way in 2021 with the new London Plan requiring all major development to be net zero, and the emerging Greater Manchester Plan requiring all new development to be net zero by 2028. Although the delivery of new local plans can take a long time from inception to adoption, we expect policies in local plan (or similar subsidiary policy documents) to become the norm at an increasing pace. We are seeing the development industry begin to factor this into initiatives and we would expect the approach to also become the norm. Developers that don't embrace this approach could find themselves on the end of planning refusals for not complying with such policies.



### DELIVERING A GREEN FUTURE

The above shows the key role the planning system has in ensuring the needs of future generations can be met. The system provides the fulcrum for the delivery of new development and therefore the opportunity to deliver development in a green and sustainable way. This is being grasped fully by national and local government with new legislation and policies and more on the way that will seek to achieve that objective.

*“Greening retail property isn’t just about just reducing the emissions of buildings and energy usage, it is also about rethinking the urban infrastructure with more diverse uses, better transport systems, densification and biodiverse spaces at its core.”*



# LOCAL AUTHORITY FUNDING: WHAT ROLE AND AT WHAT STAKE?

GREENING TOWN CENTRES THAT HAVE FRACTURED OCCUPATIONAL AND ECONOMIC NEEDS IS CHALLENGING, BUT ARE WE MISSING A BIGGER OPPORTUNITY?



## TOWN CENTRE TRANSFORMATION



BY:

**Danny Collins**  
Director,  
Savills Economics

Over recent years our cities and town centres have undergone significant economic shock. First, the challenge from out-of-town shopping, then the rise of online retail, and now a global pandemic has helped to decimate the retail function that our towns had played for us.

Now towns are trying to reconsider the role they play in our lives and how they can transform to capture new economic opportunities. The Government recognises the importance of vibrant and active town centres, not only as a highly visible display of prosperity, but also in terms of the social and

economic benefits they bring. As outlined in the Levelling Up White Paper, well-functioning town centres are essential to help increase productivity, grow the economy and deliver all the social benefits that this brings.

Yet intervening in town centres is extremely difficult; they are complex places. A web of ownership patterns, freehold and leasehold, building designs, layouts, uses, sensitivities, constraints, and stakeholder and community interest, create a difficult environment to enact even small changes, thus large-scale regeneration is so complex it is often only achieved once in a generation.

*“The low carbon and sustainability agenda adds to the complexity of town centre regeneration, but it absolutely needs to be at the heart of our thinking on transformation.”*

## TRANSFORMATION CHALLENGE

Dropping the low carbon and sustainability agenda into the mix adds to the complexity of town centre regeneration, but it absolutely needs to be at the heart of our thinking on transformation.

To simplify it: when thinking about major regeneration, there are two ways we could view sustainability on the high street:

- The physical location and buildings themselves and their performance
- The uses and occupiers of these spaces

In terms of the physical aspects, there are underlying sustainability credentials for intervention in our town centres. They are a logical place to accommodate growth. They generally have good access to sustainable transport (walking, cycling, public transport), they are previously developed places, have assets (vacant buildings) that can be reused, investment here can reach many people and have a big impact, they can be developed at higher densities, plus they can be mixed use and so help deliver homes near jobs and reduce unsustainable commuting and travel patterns. As such, development in our towns have sustainability benefits by taking the pressure off undeveloped areas.

The challenge comes in making the existing buildings more efficient, delivering new infrastructure networks at scale, and building around the complex web of development. Buildings can be retrofitted one by one, but some of these interventions are more effective than others.

In terms of uses, town centres and buildings need to be developed to be flexible to accommodate changing uses, so they remain relevant in the long term. Many cannot be easily repurposed, and some buildings need to be demolished and redeveloped, which is both costly and damaging for the environment. Creating spaces that can transform, for example, from retail to leisure, office to community service, or accommodation that can be adapted from student to older living, or from flats to larger units, will be imperative.

Another key issue for uses in our towns are the focus on mass consumption and fast fashion which are some of the most unsustainable, high carbon, and environmentally damaging activities. It's not sustainable, and a growing number of environmentally conscious customers are seeking value in locally produced or recycled goods, including recycled fashion.





### ECONOMICS BEFORE ENVIRONMENT

With both aspects, physical and uses, there is a market failure that needs to be addressed. The private sector alone cannot enact the scale of change needed in our towns due to the complexity of issues. This creates a need for public intervention.

There are already public funding pots available to support change and transition including Future High Streets Fund; Brownfield Housing; Town Deal; and now Levelling Up funding. All of these funds clearly articulate the need to consider sustainability and environmental credentials in line with local, regional and national strategy to transition to a low carbon economy.

However, none of these are purely focused on the transition to low carbon economies and environmental or sustainability improvements on the high street or via regeneration. They are also not of the scale to enact transformational environmental change in our towns.

At the same time, the building standards, and even emerging standards may not be going far enough and there is a risk that as part of the transformational plans for our town centres we are putting together now, we are missing the opportunity for radical advancements in the sustainability of our towns. Are the interventions planned now already out of date or obsolete in terms of sustainability?

There is the need to go further, push harder, and capture the opportunities now while we are planning for transformational growth in our towns. The current approaches to regeneration of our towns and cities is focused on trying to redesign our places to capture economic opportunities, which often prioritises over net-zero objectives.

### ENVIRONMENT BEFORE ECONOMICS

There is another train of thought that by focusing on environmental benefits, social cohesion and local pride of place, the economic benefits will in turn be reaped.

Malmo in Sweden has been working towards reinventing itself as an ecologically sustainable city with plans to become the first net zero city by 2030. Its transformation hasn't been an easy journey: the city isn't without its social problems and had a heavily polluted past. However, it is now a place that people want to live, and businesses want to locate to. Copenhagen, 15 miles away across the Øresund Bridge, is on track to become the world's first carbon-neutral city by 2025 and is setting a green standard for urban centres worldwide. These cities are now two of the 'happiest' places in Europe. The benefits for the wider economy are clear: improve the environment and you will improve the economy.

Perhaps the best UK example is Islington's GreenSCIES project<sup>1</sup> which will deliver a detailed design for a smart energy system that integrates new low carbon energy technologies across heat, power and mobility. The London borough plans to be carbon neutral by 2030.

Enfield Council's district heating company, Energetik, has received a £1.2 million share of the Mayor of London's Green Deal fund. The package will be used to finance a strategic network expansion of the Meridian Water heat network. Initially intended to supply 10,000 homes and businesses with low carbon heat and hot water generated at the Edmonton Eco park, this additional funding will considerably increase distribution capacity and provide the required infrastructure to supply the borough of Haringey with 20MW of low carbon energy, essentially creating a multi-borough heat decarbonisation operation.

### LOCAL AUTHORITY SUSTAINABILITY INTERVENTIONS – KEY CONSIDERATIONS

In order to achieve transformational sustainability and environmental change our towns will need a range of interventions:

**1** Government, including Treasury, DLUHC, BEIS etc. should be identifying funding pots that allow us to push the boundary of sustainability in our towns, creating proposals that are truly game changing and transformation, that are focused on the distant future not the near. Long term and sizable funding will be required. Also greater local and regional powers, including the potential to deliver CPO powers faster in certain circumstances. This could be improved CPO powers to MCA's to deliver change in certain designated zones such as town centres.

**2** MCA's should be at the forefront of investing in transformational schemes. Using ESG investment principles to identify opportunities to support local stakeholders deliver large scale sustainability and environmental interventions.

*“There is a risk that as part of the transformational plans for our town centres we are putting together now, we are missing the opportunity for radical advancements in the sustainability of our towns.”*

Eon is working with councils across the country, including Coventry, Exeter and Islington, on large scale regeneration or urban energy improvement projects. This may form part of town centre repurposing and regeneration, or edge of centre housing developments, but in each case there are clear benefits to clustering different property uses, such as through district heating projects. In Sheffield, a CHP plant provides energy to a number of large commercial sites, including Meadowhall Shopping Centre, with plans to provide district heating to residential developments on adjacent sites.

<sup>1</sup> Green Smart Community Integrated Energy Systems

### PARALLEL PRIORITIES

We are at a critical time in the transformation of our towns and cities, with a once-in-a-generation opportunity to face the challenges with a longer-term sustainable transformation in mind. To do this will require more public sector intervention than we are seeing now that mirrors the needs of both environment and economy.

At present there is a significant amount of pressure on local authorities to deliver this type of transformation, but in reality, many of them are poorly equipped to respond. They have essential services to deliver, are resource constrained and not funded like they used to be. To deliver the change we need will require multi-stakeholder responses (see box).

There are major opportunities now for transformational sustainable change in our town centres. However, these changes cannot happen without longer term and more sizable public sector funding and intervention. The benefits of this transformation needs to be recognised through both economic and environmental sustainability investment principles and multi-stakeholder approach is needed in order to unlock major funding and private investment.

Places that have focused on putting environment first have demonstrated that economic growth will follow. It's likely that this relationship will only continue to grow as we all become more aware of the importance of sustainable practices.

**3** LA's should be central to the planning for this and can support by leveraging match funding and investment, co-locating services, using wrapper leases, and supporting interventions such as EZ's, Development Corps, Green Leases etc. Private sector stakeholders could prepare ambitious strategies or ideas, that not just consider their sites but also the wider social and environmental factors for the whole town

**4** Major institutional investors, using ESG investment principles, should consider the longer term benefits of transformational change in securing long term income streams. However these institutional investors are risk averse, and with sustainability and town centres or retail, there is only high risk at the moment. In order to de-risk opportunities we will need public intervention and support.



# A BORDERLESS ISSUE

## HOW ARE GOVERNMENTS AND BUSINESSES TACKLING RETAIL PROPERTY EMISSIONS ACROSS EUROPE?



BY:

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### THE GREEN DEAL

Many doubts and questions come to mind when speaking about ESG to landlords. The topic is often either viewed at best as a mere jackpot solution to retrieve financial benefits from, or at worst as a burdensome encumbrance to deal with. Across several countries, we observe that the retail sector is slower to move towards ESG compliance than other asset classes.

The core message appears to be a so far limited response that tends to be geared mostly to corporate investors operating cross-border, who are directed by their own ESG agendas rather than policy. There is a clear disconnect between public and private stakeholders, which urgently needs to be brought together where objectives lack linearity. Added to this is confusion arising from the multitude of stand-alone initiatives as well as the complexity and fragmentation of the asset class itself.

So, what are governments and businesses doing to forward the agenda?

In accordance with its commitments under the Paris Agreement on climate change, the EU's goal is to be carbon neutral by 2050. To achieve this goal the EU Commission has set out a broad range of ambitious policy measures under the European Green Deal: the agreement that bound member states in

transforming the EU into a sustainable and climate neutral economy. At the core of these measures sits the Commission's strategy on sustainable finance which aims at mobilizing and redirecting private investments towards 'green' economic activities.

The EU Taxonomy is a tool, or better yet, a classification system, with the aim of helping EU investors redirect and increment sustainable investment while respecting the European Green Deal. The Taxonomy pinpoints performance thresholds for economic activities that bring substantive contribution to the environmental objectives set therein, do no significant harm (DNSH) and meet the minimum safeguards.

Essentially, it outlines the method to identify sustainable economic activities that are in line with six main objectives: climate change mitigation, climate change adaptation, sustainable use of and protection of water and marine resources, transition to a circular economy, pollution prevention and control, and protection and restoration of biodiversity and ecosystems. Although generic, the principles represent the basis for the standardisation of best practices in influencing investment flows towards sustainable activities.

### EU TAXONOMY IN PRACTICE

With a multitude of ESG initiatives on the one hand and the current lack of reliable long-term goals at both European and national level on the other, there is a sense of widespread confusion among landlords and investors. In an effort to push the agenda, individual solutions are created, external service providers are used, and numerous sustainability declarations are signed. Nevertheless, it can be observed that many of the scoring models, benchmarks or other valuation methods that have been developed on the market or by the companies themselves are only a momentary snapshot; a common market standard is missing. However, there are no tools to manage the properties during operation that are specifically designed for facility and property management. We should also be mindful that some environmental performance certifications, such as GRESB, are there to provide an international standard of ESG performance but may not themselves be aligned with carbon reduction targets (unlike CRREM, which is). Therefore, unless operating at net-zero, even the best performing properties by most certification benchmarks are likely to have a significant need for optimisation by 2050 in order to meet the Paris climate targets (figure 1).

Interpretation across borders might vary. Generally speaking, a distinction should be made between existing assets and developments. Increasingly we're seeing investors seeking to maximise an asset's value by considering both adjustment works and improvements through retrofitting. These works entail CapEx estimations which are typically aimed at the potential obtainment of green and social certifications such as LEED, BREEAM or WELL. In Germany, the German Sustainable Building Council (DGNB) has just created a special certificate that checks ESG verification along the taxonomy.

Meanwhile, Italian-based management companies tend to have an approach towards ESG issues in real estate based on their resonance. For example, companies that benefit from international markets and are globally present are generally more likely to include issues that are deeply connected with ESG matters in their strategy and/or corporate social responsibilities. Conversely, management companies that operate mostly within Italian borders have a tendency to underestimate, or at most delegate, ESG-compliance issues to external specialists.

### LANDLORD PROACTIVITY

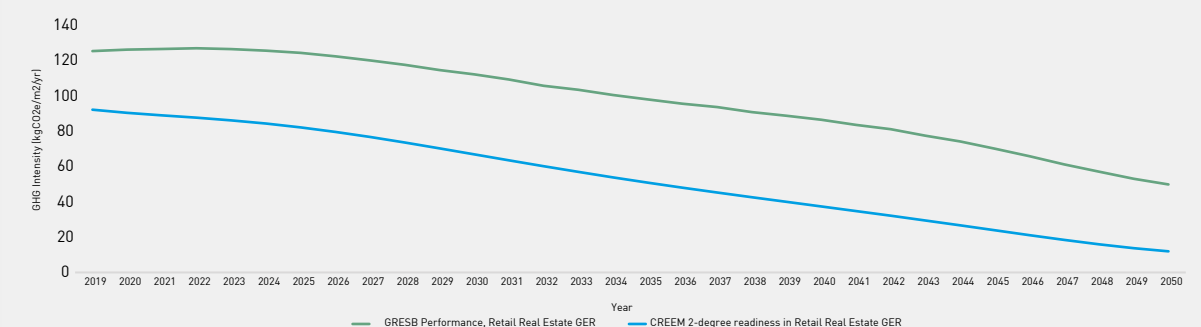
One of the challenges of a cross-border approach to sustainability is the different priorities, issues and infrastructures already in place in different territories. Consider, for example, how electricity production differs across Europe (figure 2). Switzerland and Norway generate over 95% of their electricity from renewables or hydro, so there may be limited benefit to a mass rollout of PV on shopping centre roofs, compared to Malta and Cyprus where the climate is both considerably sunnier and fossil fuels still account for more than 80% of electricity generation. This is just one reason the taxonomy is a guide rather than policy and it is anticipated that individual countries will interpret and legislate accordingly. However, with this comes the risk of a lack of urgency and alignment.

In addition, there are numerous site- and owner-specific peculiarities. In the Netherlands, there are fewer large-scale shopping centres than many other European markets and the majority of the stock of retail real estate is located in inner city areas. These areas contain a high share of older properties that are less sustainable and more difficult to retrofit. Furthermore, ownership is highly fragmented, and for private investors especially, incentives for improving the sustainability of the properties seem to lack.

There are not only different approaches across the different countries, but even within the asset class, individual solutions are required. For instance, the challenges of a shopping centre are not the same as those of a discount supermarket. There are certainly overarching measures that can be implemented in all properties, such as the use of LED lighting or the generally increased electrification of buildings, but each retail type is confronted with its specific requirements. For instance, the inclusion of the social factor is of greater importance in shopping centres than in other retail properties.

Figure 1 illustrates a comparison of GRESB Performance with the CRREM 2°C decarbonisation pathway for retail properties. The aggregated GRESB results show the performance of the retail properties in Germany compared to the CRREM -2°C path, which uses the property-type and country-specific average as a starting point. The GRESB path starts significantly higher and does not fall below the CRREM 2°C path until 2050 - ergo.

FIGURE 1: DECARBONISATION PATHWAY FOR RETAIL PROPERTIES GRESB VS CRREM



Source: Bienert, S. & Wein J. - GRR Basic Retail Report 2021



A virtuous example of such a strategy can be found in the commercial centres located in central Italy, managed by Pradera Asset Management. The firm has successfully navigated the path to ESG compliance through works of retrofitting. The commercial centres examined fall under Savills Property Management team and are currently undergoing a process of ESG-assessment by Savills Building and Project Consultancy team, finalized to obtain a BREEAM certification level of Very Good.

Energy retrofitting will always require solutions that are specific to the type of building and the location, and the responsibility does not lie solely with the landlords – there is also the challenge of shared responsibility. Green leases<sup>1</sup> have been increasingly introduced in some markets but are still relatively uncommon, yet there are retail tenants who are pushing the issue of sustainability of the property based on their own company agenda. For example, the REWE Group in Germany, one of the largest German food retailers, only builds according to its certified Green Building Standard, or only signs leases with project developers who build according to it.

Action is most commonly found within the largest owners of retail real estate, particularly those operating across different territories: Sonae Sierra, for example, have retrofit photovoltaic glass in the skylight of the Portimão Shopping Center in southern Portugal. Glass was installed with solar sensors with a generation capacity of 30,500 kWh/year, which has allowed a reduction of 20 tCO<sub>2</sub>e per annum – obtaining clean energy at a 70% lower cost. The project was following the landlord's own ESG agenda rather than being guided specifically by policy. Carbon reducing projects tend to be piecemeal rather than through widespread adoption; a clear issue if we are to meet the objectives set out by the Green Deal.



<sup>1</sup> See Green leases article p.106



### CONSEQUENCES FOR THE CAPITAL MARKET

Currently, ESG criteria are inadequately taken into account, both when purchasing or selling retail real estate across Europe. Although awareness has increased due to regulation, capital flows in the institutional investor market have not yet been redirected towards ESG investments in EU retail sectors on a grand scale. We cannot rule out the possibility that some investors have removed retail properties from their purchasing profile – also due to a lack of ESG compliance. At this point, few have experienced a price premium or discount in the retail sector. Additionally, the emissions caused by new construction, the so-called “embodied carbon”, are not factored in, meaning a new property also begins its life cycle with a negative energy performance. Current regulatory measures fall short here and it is unclear if embodied carbon will increasingly be brought into account in future regulation adjustments.

So, how will retail properties fit into an ESG-compliant portfolio in the future?

According to research from Deepki, 79% of 250 European pension fund managers surveyed expect commercial real estate with good ESG credentials to provide better returns or “green value” over the next five years, and the prevailing industry opinion is that ESG-compliant properties will be the future core products. In the long term, the aim must be to refurbish the existing portfolio. At the moment, however, we cannot observe any significant inclusion of refurbishment costs for ESG measures in transactions – especially for value-add properties. Property owners may no longer invest in the ESG compliance of their properties if persistent structural problems result in them wanting to exit the retail segment. This could lead to sharp price reductions in the future. The lower price is likely to further encourage the market entry of fix-and-flip developers who focus on ESG refurbishment – a development that is already taking shape today.

### MEETING THE CHALLENGE

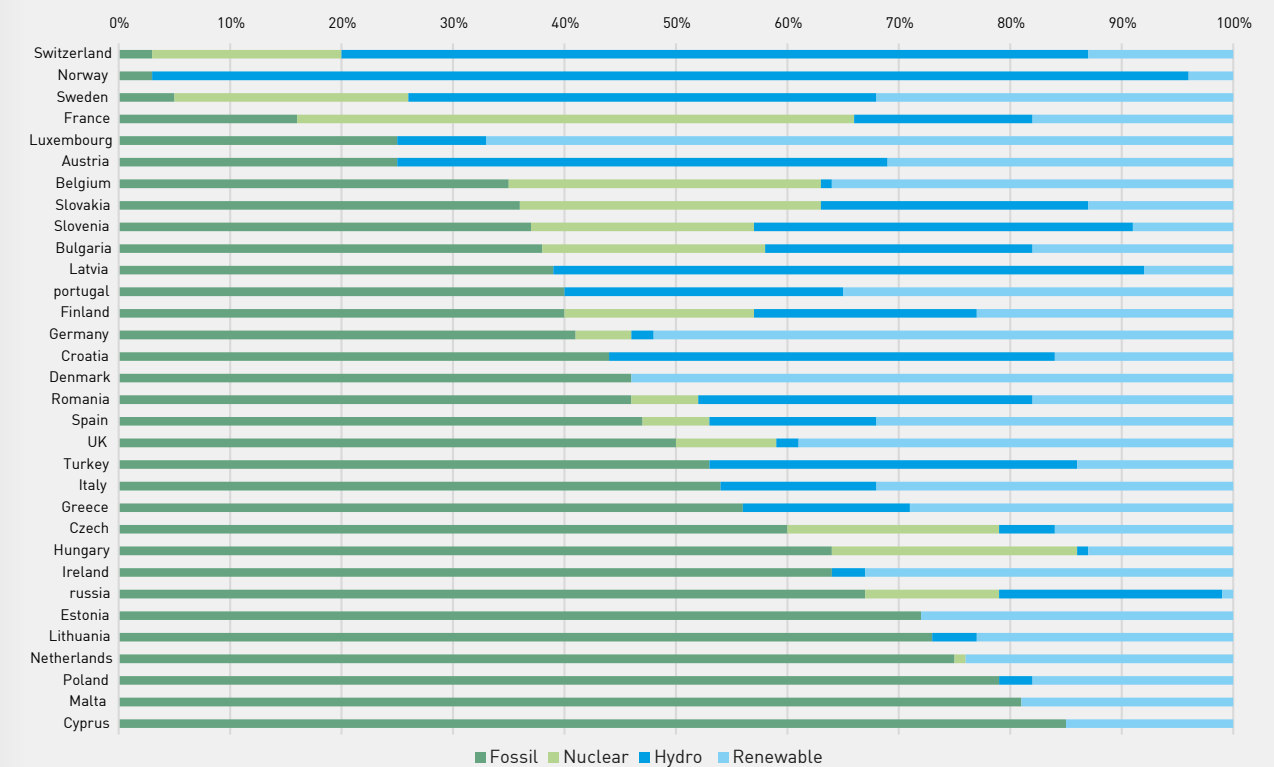
Although the structural problems of the retail sector and the aftermath of Covid-19 are often seen as the biggest challenges in the asset class, the retail segment is just as affected by regulation as any other commercial use. ESG needs to be considered as a priority in any forward-looking retail, location and real property development. Continued perseverance could make participation in the capital market and the attractiveness of the asset class increasingly difficult.

Fortunately, ESG strategy from investors is starting to move the debate forward and will inevitably feed down to smaller assets overtime. However, this is still a haphazard approach lacking cross-border gravitas and will need to accelerate significantly if the EU's zero-carbon objectives are to be met. The real question is whether national and EU-wide policy will go further to legislate a more coherent policy that will accelerate change.

Typical sustainability strategies we have observed retail landlords undertake across Europe include:

- o Energy management systems
- o Light optimisation
- o Addressing refrigeration concerns
- o Renewable technologies
- o Sustainable air conditioning and heating systems
- o Connection to district heating networks
- o Heat transfer systems
- o Energy storage systems
- o Photovoltaic systems
- o Solar harvesting systems
- o Recycling building materials
- o Use of Green Leases

FIGURE 2: NATIONAL FUEL SOURCE FOR ELECTRICITY GENERATION BY COUNTRY



Source: CIA World Fact Book



# HOW WILL WE GREEN THE FORGOTTEN STOCK?

## TOO MUCH OF OUR RETAIL PROPERTY IS FALLING UNDER THE ENVIRONMENTAL RADAR



BY:

**Mark Robinson**  
Chair at High Streets Task Force

### ENVIRONMENTAL LEVELLING UP

It is sometimes forgotten that the ills of the High Street long predate the pandemic; indeed, the High Street Task Force programme, which started in 2019 and is to last for five years, was a result of Sir John Timpson's report a year earlier. It aims to improve leadership and skills in local placemaking, focusing on building capacity, growing expertise, promoting collaboration, and using data and knowledge sharing.

Charing COP26 in November 2021 had a catalytic effect on the UK government, with a sincere drive to join up policy and practice around the green agenda with a specific focus on the route to net zero. Charged with upping our game by ministers from both BEIS and MHCLG, we appointed a sustainability expert, Hannah White, to the board and made the delivery of net zero a foundational part of the training and support to over 2,500 local leaders and stakeholders in 150 locations.

Further focus on the work of the task has happened as a result of the levers of state coalescing around the imperatives of the Levelling Up white paper, published in February 2022. There is, of course, a massive alignment in the challenges and opportunities arising from both issues.

Therefore, in a similar vein, it is entirely appropriate that Savills has taken the opportunity to bring the issues of regeneration and sustainability into focus in this year's Reimagining Retail report. The publication will guide readers in the public and private sectors to build back, better and greener.

However, one major challenge highlighted for the first time is the "The EPC Cliff Edge".

<sup>1</sup> See EPC Cliff Edge article p.18



### WHY EPCS DO MATTER

This new data draws stark attention to the fact that without upgrading, within the decade, over a billion sq. ft of retail space will not meet the required sustainability challenge of having a "B Grade" Energy Performance Certificate. Furthermore, it obliquely draws attention to the fact that "shopping centres, retail parks and large high street blocks... only account for 25% of retail property emissions". It would be a stretch to suggest that all of these assets are in anything that would approximate "institutional" ownership. However, it is clear that vast tracts of our town centres are owned by parties who may not have the money, motivation or knowledge to plan for these changes in good time.

EPC's themselves are far from an optimal measure in which to judge a property's environmental performance, but they do represent a fundamental indication of the uphill struggle that most high street locations face.

Increasingly interventionists, local government, investing some of the levelling up capital, will play a part in making this change happen. But, hopefully, demanding occupiers, driven by their ESG promises to consumers, will also insist on this change happening before the deadlines.

### NET ZERO HIGH STREETS

Increased community ownership and operating models advocated by fabulous organisations such as Power to Change will play their part, with the more capitalist imperative of cheaper loans for ESG compliant projects available from real estate lenders such as Lloyds and Aviva.

But irrespective of regulation, how do you pay for environmental improvements when many properties lie vacant just for want of the most basic repair?


Sustainability compliance is an additional factor that the Government must take into account when consulting on the proposed High Street Rental Auctions and their combined potential to accelerate the use of Permitted Development Rights from Class E to residential.

It is no coincidence that many of the locations with the lowest environmental performance are also those that are most occupationally challenged – these are places that tend to lack investment, but are also often critical for supporting local communities. The rationale for repurposing and reenergising retail places has never been stronger.

While we will need less physical retail space going forwards, there is a real possibility that these factors might combine to produce a retail property shortage within a decade (could it be a good time to invest in resilient retail?). Still, if not properly considered and planned for, the consequences would be to reduce the vitality of our high streets and impact our communities.

The Task Force's mandate expires in 2024. However, I will use this important research from Savills to immediately highlight to the Government the challenges in ensuring the High Street contributes its part on the road to net zero.





# CHAPTER 6

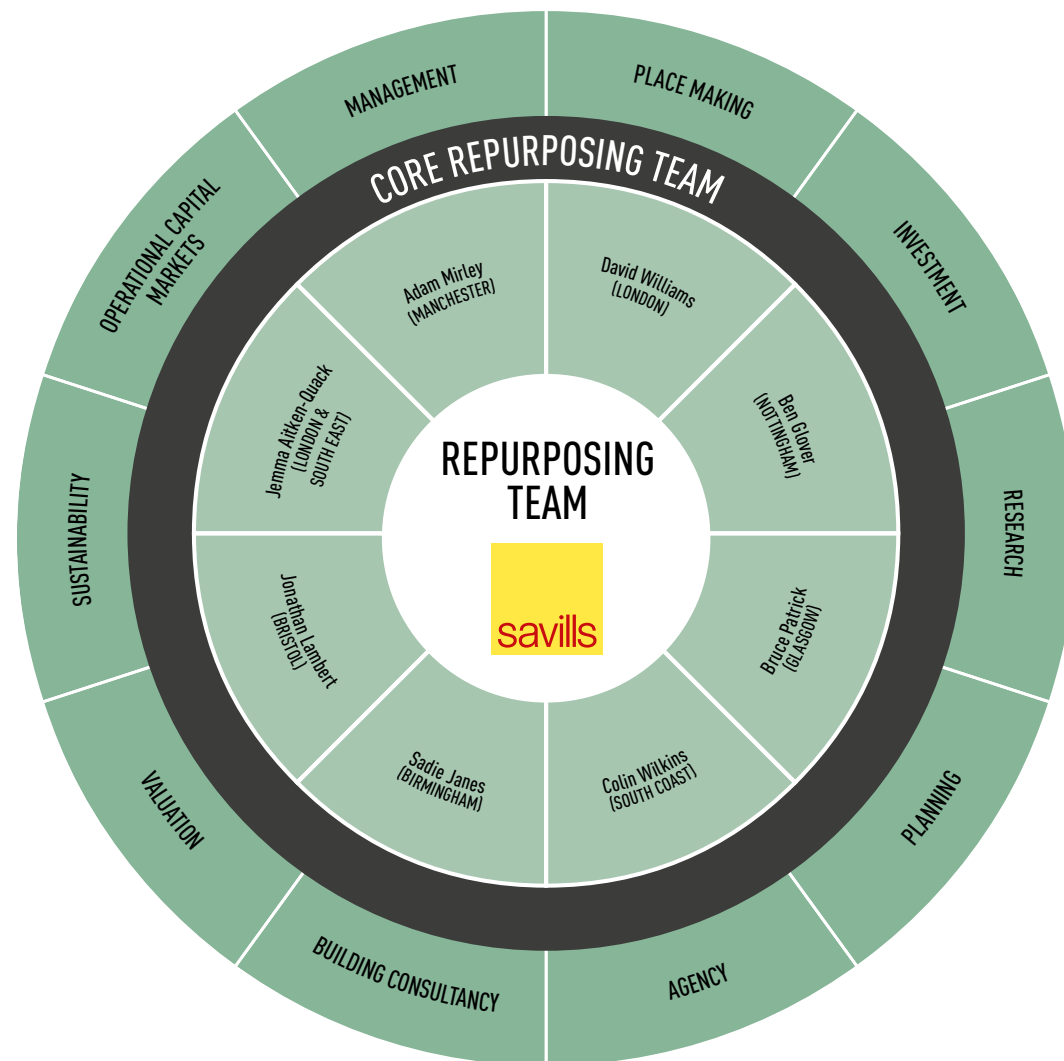
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# SAVILLS EARTH



## SAVILLS EARTH PROVIDES A WIDE-RANGING TEAM OF EXPERTS TO HELP OUR CLIENTS DEFINE AND DELIVER THE VERY BEST SUSTAINABILITY STRATEGIES ACROSS THEIR PROPERTY PORTFOLIOS.

Savills Earth consolidates its expertise across service lines to deliver the best sustainability, energy, carbon & public health strategies for clients. With 100+ UK specialists & 200 globally, we turn ESG aspirations into reality to create healthy, vibrant & cohesive communities.

By allying its breadth of service with cross-sector expertise derived from our 165-year history, we understand that every client will have specific requirements and objectives it wants to achieve in establishing sustainably-sound business practices.

Through practical advice we support clients to develop strategies and working practices that turn sustainability targets and commitments into reality and embrace the change needed to improve the effects that property has on the planet.



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