Asia Pacific - December 2023

SPOTLIGHT
Savills Research

Asia Pacific ESG

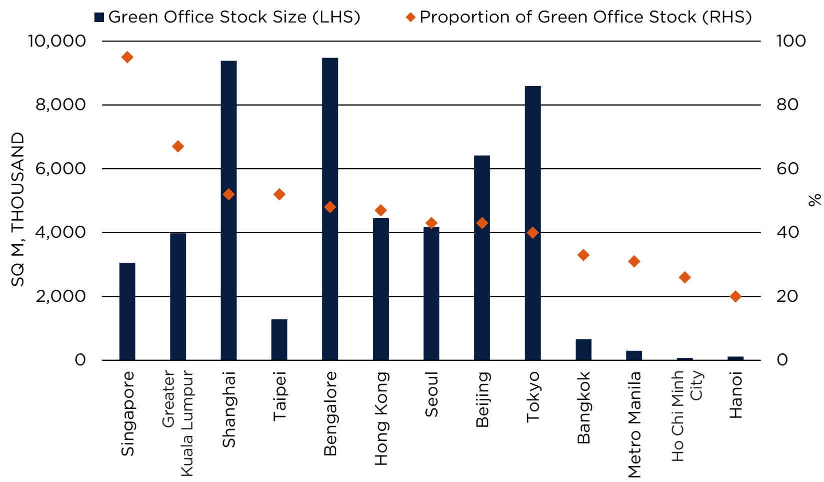
Building tenant engagement into a costed portfolio decarbonisation plan

THE BUSINESS CASE FOR SUSTAINABLE INNOVATION

We are all well versed in environmental, social and governance (ESG) by now and it offers no end of jargon and acronyms to keep conference organisers and their attendees busy. Let's assume that the S and G are largely taken care of under existing CSR and compliance functions and focus on the E.

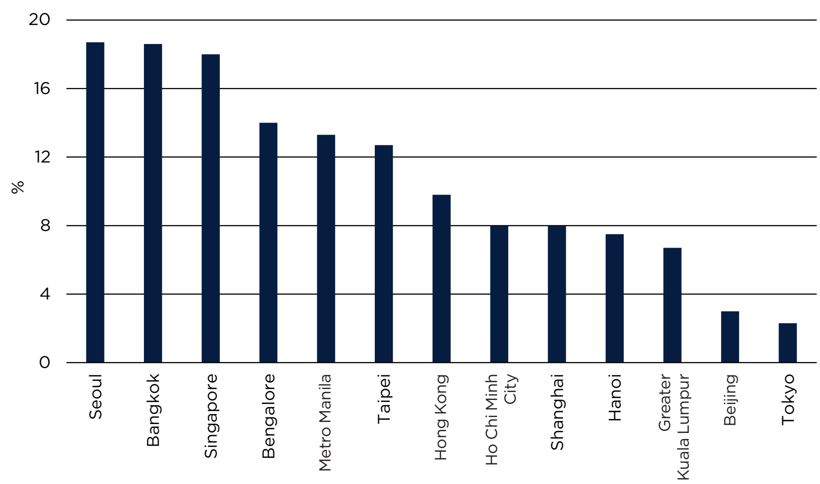
The E for environmental also stands for energy and efficiency. This focus on EEE, we might mischievously call E3, is also the nuts and bolts of a net zero pathway which is the overarching ambition set out in occupier corporate sustainability targets. This is all encapsulated in organisations including the Net Zero Asset Managers Alliance, the Net Zero Asset Owner Alliance, the Net Zero Banking Alliance, the Climate Neutral Data Centre Pact, the Net Zero Lawyers Alliance and others which bring asset owners, manager and occupiers into the E3 fold. This is increasingly important with looming net zero target dates. Tenants with a 2030 net zero target only have time for one more office relocation to establish the lowest operational carbon footprint they can. This takes on even more importance in Asia Pacific where renewable energy tariffs are so few.

GRAPH 1: Green Stock Across Grade A Office Markets, Q4/2023



Source Savills Research & Consultancy

GRAPH 2: Rental Premium of Green Certified Offices in Asia Pacific, Q4/2023



Source Savills Research & Consultancy

Building owners that focus on ESG to drive energy efficiency and deliver on their green building certification targets can be seen to enjoy a 'green premium'. This is seen across the region but the figures should be approached with caution, the greenest buildings also tend to be the newest which skews the data.

The existence of the green premium is supported by tenant demand for offices that support their net zero pathway. There is also evidence that 'brown' assets are being left stranded by the economic slowdown in European markets where tenant demand is lower and refinancing is no longer easy. The case for Asian developers, asset managers and others to develop a portfolio decarbonisation plan is a compelling part of their future proofing strategy. To many regional building owners, this process is a sustainable innovation.

ASSET DECARBONISATION PLANS

A decarbonisation plan begins with a realistic assessment of the individual assets within the portfolio. Energy audits provide the data to enable deeper analysis, which together with building management interviews, provides the basis for an individual asset plan. Identifying which assets can be cost effectively upgraded to meet the local green certification standards and understanding exactly how for this goes to drive energy efficiency in particular enables prioritisation. Usually, the building managers will have a good idea of where their assets sit on the 'shades of green' spectrum and what M&E upgrades are needed to improve energy performance.

Comparing building sustainability performance to the relevant points scoring system for the green certification standard identifies particular gaps for additional focus. This can then be matched to available incentive schemes for existing buildings, such as the Singapore Green Mark Incentive Scheme for Existing Buildings 2.0 (GMIS-EB) or similar.

The prioritised roadmap for decarbonisation can be integrated into the existing maintenance plan to adjust the long-term CAPEX plan as an essential part of linking financial planning to ESG disclosures. It enables stakeholders to understand the investment required and the rationale behind it as well as the expected results. Forecasting OPEX savings can then be compared to costs of achieving them. So far so good.

Much of this work can be done by the asset owner with support from professionals where needed. For those ready to take it a step further, decarbonisation is far more effective when the occupiers are on side, this is the case for tenant engagement. The approach may be tailored differently

Getting to grips with sustainable innovation seen through the lens of embedding energy performance upgrades into maintenance planning resulting in operational efficiency. This not only helps future proof the asset but may also result in green premiums with the resulting impact on valuations. Taking this to the next level includes a new approach to tenant engagement. The environmental and business cases are compelling and interlinked.

for multi-tenant buildings and single-tenant buildings but the overall direction is the same. This can lead to "voluntary environmental partnerships" between landlord and tenants which may be tied up in a 'green lease' or more likely set out in a non-binding addendum to the lease with additional requests and requirements including in a sustainable fit out guide or occupiers handbook.

The case for tenant ESG engagement is a strong one and goes beyond regular tenant satisfaction surveys. This involves knowing your tenant; their sustainability strategy and priorities will be easy to find for most listed companies and a trained eye can quickly assess where they are on their sustainability journey. Chances are Net Zero 2025 or 2030 for scope 1 and 2 will be among the targets, this means office operational energy efficiency is a high priority. If it's a service industry business it will be their top priority, if they are a manufacturing company then manufacturing and transportation related energy will be more important.

Knowing your tenant informs the tenant engagement agenda. Having the conversation means retooling the leasing team to have those ESG discussions. Many corporate occupiers have an ESG champion, probably reporting to the CFO or COO. Building sustainability actions into regular tenant engagement helps maintain a relationship that could save the landlord from losing a tenant. In slowing markets, that alone makes it worth the effort.

Corporate sustainability agendas can be very broad. The basics may be in place, but how many of us have a "bird strike remediation plan"? Probably not a deal breaker but if it comes up, it's better to have a plan. Likewise a 100% LED lighting policy, just having the lighting installed is one thing, having a policy in place and evidence to support implementation puts the building owner a step ahead of rivals.

WHAT NEXT?

In brief, setting a decarbonisation plan to, say, have "100% assets green certified and implement all available energy efficiency measures by 2030" means evaluating the portfolio, setting individual asset plans for short, medium and long term, estimating OPEX savings, budgeting for CAPEX, getting board approval and implementing the plan. Depending on the circumstances, a competitor or peer review and benchmarking study may inform the process.

Putting measureable plans into actionable policy means writing up the 100% LED Lighting Policy, the Single Use Plastics Free Policy, volunteering activities and the Bird Strike Remediation Plan. Having all these things in place demonstrates commitment and gives the tenant confidence to go to head office for the relocation plan approval. Head office approval possibly already mandates such things from the tenants side.

CONCLUSION

The green premium comes in different shades of green, maximising it takes a bit of sustainable innovation. With increasing reporting requirements, many of these actions are going to be taking place anyway. Taking a proactive approach to build sustainability, and decarbonisation in particular, just makes good business sense.

savills

For more information about this report, please contact us

Savills Research

Simon Smith
Regional Head of Research & Consultancy, Asia Pacific
+852 2842 4573
ssmith@savills.asia

Nancy Wong
Senior Manager, Regional Research & Consultancy
+852 2842 4281
naywong@savills.asia

Sustainability & ESG

Sam Crispin
Regional Head of Sustainability & ESG, Asia Pacific
+852 2840 4723
scrispin@savills.asia