

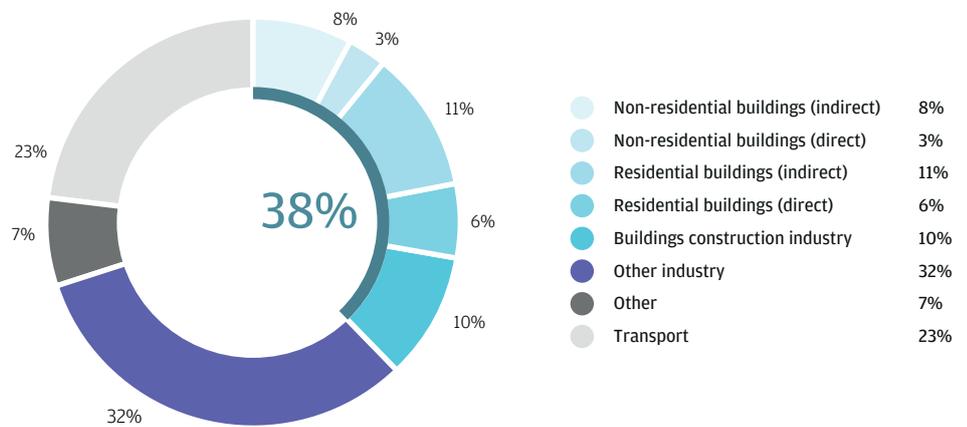
# Buildings reimaged: Why carbon neutral property is the future of real estate

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*There are costs to decarbonising property, but both landlords and tenants can benefit from a cleaner real estate sector.*

Today, buildings are the largest contributor to global warming. Across commercial and non-commercial buildings, the real estate sector accounts for 38% of all greenhouse gas emissions.

EXHIBIT 1: GLOBAL SHARE OF BUILDINGS AND CONSTRUCTION EMISSIONS, 2019



Source: IEA and the UN Environment Programme, 2020 Global Status Report. GHG = Greenhouse Gas

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A large proportion of today's commercial buildings date back to the 1970s, when environmental issues were not a concern. And because most of these properties will still be standing in 2050 - the year many governments have pledged to reach zero-carbon targets - they will need to be decarbonised by reducing the amount of carbon compounds they omit into the atmosphere.

The good news is that we have the ideas and technology in place to reduce emissions, and there are incentives too, through tightening regulations and government programmes. But major investment is also needed from landlords. For example, something as simple as the adoption of LED lighting in commercial building stands at just 50% - we need adoption of at least 90% to meet current targets.

## DECARBONISATION FROM DESIGN TO DEMOLITION

There are three ways to improve a building's carbon footprint: increase its energy efficiency; increase its renewable energy supply; and reduce its embodied carbon, which refers to the emissions generated throughout the building's lifecycle.

When it comes to energy efficiency, today's technology can help us analyse energy usage and control a building's heating, cooling, water usage and ventilation. We can also invest in heat pumps that can efficiently transfer warmth from the outside air to heat a building, rather than heating air within the building by burning fossil fuels. And some solutions are as simple as installing better insulation, ensuring windows open to take the pressure off cooling systems, providing more green spaces in and around buildings, and encouraging greater biodiversity via insect hotels and rooftop beehives.

In terms of energy supply, as well as making buildings more energy efficient, we can also use renewable energy sources. And where this is not yet possible from the main grid, renewable energy solutions, such as solar panels, can be used to remove some of the reliance on fossil fuels.

Embodied carbon, meanwhile, can be reduced by considering, among other things, the construction materials used. This means assessing the impact of the materials to be used (how they are extracted and processed) when a new building is planned or an existing building is upgraded. Concrete, for example, has a high carbon footprint, but emissions can be reduced by reusing old concrete and combining it with timber and aluminium, which have a far smaller footprint. The construction industry alone accounts for 10% of all emissions, so ensuring the least harmful materials are used is vital.

### CONCLUSION: A GOOD DEAL FOR TENANTS AND LANDLORDS

Without a doubt, landlords and property owners face higher upfront costs to retrofit buildings in order to reduce emissions. But, given tightening regulations, there are costs to doing nothing. And short-term gains should soon arrive in the form of higher rents, longer tenancies and enhanced capital values for buildings with strong environmental credentials. Buildings that do not keep pace with these changes are likely to face accelerated obsolescence.

In the commercial sector, there are incentives for business tenants to seek out environmentally friendly buildings to help them meet their own carbon targets and also to support their employees' health. To entice employees back to the office following Covid-19, for example, many companies are seeking better green spaces and communal areas, which go hand in hand with the design of carbon-neutral buildings.

Reimagining the way we construct and manage buildings will play a major role in meeting the world's climate goals. There will also be an investment impact, most likely reflected in a flight to quality in the real estate markets. Investors may increasingly avoid older properties that are left behind from an environmental perspective, while tenants are likely to become a lot pickier about the buildings they occupy.

## PORTFOLIO INSIGHTS

## NEXT STEPS

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