



# NET ZERO REVIEW

## **BPF RESPONSE TO THE CALL FOR EVIDENCE**

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**PREPARED AND SUBMITTED BY**

Rob Wall

Assistant Director

BPF

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E: [RWall@bpf.org.uk](mailto:RWall@bpf.org.uk)

# INTRODUCTION

## INTRODUCTION

The British Property Federation (BPF) represents the UK real estate sector – an industry which contributed more than £107bn to the economy in 2020 and supports 2.3 million jobs.

We promote the interests of those with a stake in the UK built environment and our members comprise a broad range of owners, managers and developers of property, as well as those who support them. Their investments help drive the UK's economic success, provide essential infrastructure and create great places where people can live, work and relax.

We welcome the opportunity to respond to the [call for evidence](#) on behalf of UK real estate. The sector is the [second largest source](#) of greenhouse gas emissions in the UK, with buildings and construction responsible for around [25% of all emissions](#). As such, we have a critical role to play in tackling climate change. The Government will not meet its net zero target unless we decarbonise our homes and buildings and fundamentally change the way in which we approach the construction of new buildings.

Our responses to the questions below are informed by our understanding of the UK property sector and reflect the views of our members.

We have answered those questions most relevant to UK real estate.

## OVERARCHING QUESTIONS

### 1. How does net zero enable us to meet our economic growth target of 2.5% a year?

There is consensus across the real estate industry that the transition to net zero provides significant economic opportunities, including new jobs, better productivity, new industries and new investment.

#### *Jobs*

The Government's own [Net Zero Strategy](#) has already set out how the decarbonisation of our buildings supports growth and provides potential for new investment and new export opportunities. For example, the roll out of energy efficiency measures and low carbon forms of heating across all asset classes and types of building, as set out in the Government's [Heat and Buildings Strategy](#), could drive up to [£6bn gross value added \(GVA\) per year by 2030](#). These benefits would be shared right across the country as work to decarbonise our buildings would create jobs in every region of the UK. For example, the installation of energy efficiency measures and new heating systems on the scale predicted will require local skilled workers and will support local supply chains and local businesses, including small and medium sized business.

We touch on this further in our response to question 17 below.

#### *More efficient and attractive buildings*

The transition to net zero buildings can help attract international businesses to the UK by providing world class places to work and live. A [survey](#) by the City of London showed that "place" was increasing becoming an asset, with more and more businesses focusing on the quality of buildings and facilities when deciding where to locate.

More energy efficient buildings also benefit occupiers by cutting energy bills which increases margins and allows more investment into plant and machinery and into staff, which in turn boosts productivity.

However, the benefits of net zero buildings go beyond just economic and environment factors. [Green buildings deliver social benefits too](#). Many of these benefits are around the health and wellbeing of people who work in green offices or live in green homes. The well-being of employees is recognised as a key driver of productivity within an organisation. A good work environment cuts down absenteeism, reduces sick downtime, and improves worker engagement, all of which increase productivity.

## Investment

The sector already attracts significant investment from overseas. In 2020, overseas investors held around 30% of the invested commercial real estate market in the UK and around 28% of institutional investment in the residential market. In total, this accounts for some [£180bn of overseas investment](#) into the UK. With the rapid growth in green finance, and with global investors demanding ever higher ESG credentials from their investments, the UK real estate sector is well positioned to benefit from the shift towards more sustainable forms of investment.

2. What challenges and obstacles have you identified to decarbonisation?

3. What opportunities are there for new/amended measures to stimulate or facilitate the transition to net zero in a way that is pro-growth and/or pro-business?

4. What more could government do to support businesses, consumers and other actors to decarbonise?

5. Where and in what areas of policy focus could net zero be achieved in a more economically efficient manner?

We answer these questions in more detail in the “*Questions for businesses*” section below.

We would however make the following general points:

- a generally supportive business environment is key to supporting the transition to net zero. This requires long-term policy and regulatory certainty, a fair and proportionate tax regime and stable market conditions;
- there are specific actions that the Government can take to support business and help accelerate the transition to net zero, and we explore these further below. However, we would not support any action that weakens existing environmental protections or removes existing environmental safeguards. BPF members are adopting ambitious biodiversity strategies and targets and are committed to protecting and promoting nature. We believe that we can achieve our net zero ambitions in a pro-growth way and support nature and the wider environment; and
- as already noted, the property sector has a critical role to play in the transition to net zero. To date, however, the Government has not sufficiently focussed on the sector or provided sufficient support or direction. As the [Committee on Climate Change](#) have noted, the Government’s [Heat and Buildings Strategy](#) does set out a range of policy mechanisms to decarbonise the sector. However, plans are not comprehensive or complete and

significant delivery risks remain in a wide range of policy areas. We explore this further below.

## 6. How should we balance our priorities to maintaining energy security with our commitments to delivering net zero by 2050?

The sector has an important role to play on energy security by helping to reduce energy demand by making buildings more energy efficient and by integrating clean, renewable energy sources into the built environment.

## 7. What export opportunities does the transition to net zero present for the UK economy or UK businesses?

There are clear export opportunities arising from the transition to net zero. For example, the Government's [Net Zero Strategy](#) predicts specific export opportunities arising from the drive to net zero buildings. The UK is already a [net exporter](#) of insulation and energy efficiency retrofit goods and services, and there must be potential to increase exports if we continue to innovate and invest in skills and supply chains.

## QUESTIONS FOR BUSINESS

## 8. What growth benefits/opportunities have you had, or do you envisage having, from the net zero transition?

Our members have previously reported a range of benefits arising from the net zero transition in the real estate sector. The most recent survey of BPF members, in September/October 2021, identified the following key benefits.

What do you see as the key benefits of investing in net zero? (Respondents could select up to five answers.)	% (responses=34)
Helping to tackle climate change	97%
Protecting the medium/long term value of assets/investments	85%
Reduced energy and other costs	74%
Enhanced ESG credentials	68%
Providing competitive advantage	56%
Delivering an enhanced return for investors	50%
Higher rental values	38%
Higher occupancy	35%
Higher sales prices	18%
Potential to share costs with occupiers	9%

We explore further the key benefits below.

### *Protecting the value of the asset/investment*

Investing in net zero has the potential to grow the value of investments and increase income, through a green premium. We discuss this in response to question 12 below.

Not investing in net zero also has the risk of negatively impacting growth. BPF members report concerns that “brown” buildings – those with poor environmental credentials - will lose value fast as they near obsolescence and eventually become stranded assets. Indeed, many in the sector [report](#) that concerns around a “brown discount” have more severe implications for property values than the positive implications of any green premium.

### *Reduced energy costs*

A clear benefit of bringing buildings up to a net zero standard is reduced energy bills and reduced business operating costs. This is the case across all types of buildings and all asset classes.

For example, the [Energy Efficiency Infrastructure Group](#) estimate that upgrading all UK homes to EPC band C could provide annual energy cost savings of £7.5 billion. The [Building Energy Efficiency Survey](#) suggests that business could save around £1.3bn a year by implementing energy efficiency measures with a less than three year payback.

In the current energy crisis, these savings in energy costs are likely to be even greater.

### *Enhanced ESG credentials*

Environmental, social, and governance (ESG) considerations have become increasingly important in recent years. There is increasing pressure from investors, employees, customers and communities for businesses of all types to evidence that they are well run and have a positive impact on society and on the environment.

In the real estate sector, there has been a significant increase in investor interest in ESG. [According to research by GRESB](#) in 2020, the share of investors who pay attention to ESG has increased by 22% suggesting that ESG credentials will increasingly affect investment decisions on real estate.

Many in the market agree. [Knight Frank](#) report that, as more investors use ESG criteria as a screening tool, the demand for buildings with green ratings is likely to increase. As touched on above, Knight Frank also note that net zero buildings enjoy a greater degree of futureproofing

against potential legislative changes (for example, as countries start to embed carbon targets into law) which reduces the risk of assets becoming “stranded”.

## 9. What barriers do you face in decarbonising your business and its operations?

The BPF is currently conducting research on the key barriers that property businesses face when decarbonising their assets and operations. We would be happy to share this research in draft with the review team if this would be helpful.

We would expect, however, the research to highlight a number of well-known challenges. These include:

- **cost challenges**, as the cost of retrofitting some buildings can be prohibitive;
- **the lack of policy and regulatory certainty**, which negatively impacts on businesses' ability to make long term investment decisions;
- **skills** and supply chain challenges;
- **operational challenges**, which include working with occupiers and data-sharing;
- **local challenges** (see our response to question 24 below).

## 10. Looking at the international market in your sector, what green opportunities seem to be nascent or growing?

The growth in global green finance represents a real opportunity for the UK, and for the UK real estate sector. [Research from TheCityUK](#), with the support of BNP Paribas, has found that the global green finance market, aimed at supporting environmentally friendly projects around the world, has grown over 100 times in the past decade, from \$5.2bn in 2012 to more than \$540bn in 2021. The research notes that the UK is “well placed to take advantage of this growth” provided the green finance market is supported by the government and regulators.

There are also opportunities in the development of low carbon material and in carbon removal technologies. For example, there is increasing global demand for low carbon steel and concrete and growing interest in alternative buildings materials.

For BPF members who provide consultancy or advisory services, there will be increased opportunities to provide these professional services to international clients.

There are also opportunities to learn from other countries. For example, Italy, a country with 26 million households, has launched a 'Superbonus' tax-credit-based subsidy scheme where taxpayers can offset 110% of renovation works against their tax liabilities. It has been suggested that this is perhaps the most promising global example where retrofit rates have accelerated, with 122,000 deep retrofit subsidy applications approved in the 20 months between July 2020 and February 2022 at a cost to the state of £17.5bn

## 11. What challenges has the net zero transition presented to your business?

See our response to question 9.

## 12. What impacts have changing consumer choices/demand had on your business?

### *A green premium*

As discussed above, the increasing importance of ESG in real estate is well understood but the precise impact of a building's net zero credentials on consumer choices and on business decisions is less clear. We are still building the evidence base about what "green premium" exists and what return on investment can be achieved by net zero buildings.

Anecdotally, BPF members report that sustainability is increasingly in demand in both the occupier and investor markets, certainly at the prime end. However, the actual financial benefit that investors, landlords and developers can reap from net zero-rated buildings has been challenging to quantify. [Knight Frank report](#) that this is due to the difficulties in both being able to measure what makes a building green, but also the large and varied amount of data that is needed to then run the analysis.

### *The residential market*

In the residential sector, there are a number of surveys indicating increasing demand for environmentally friendly homes. In August 2020, a [Savills survey](#) of people looking to buy a property found 49% said green credentials had become more important and a separate survey by Redrow found that 29% of buyers said energy efficiency was the most important feature of a new home. More recently, [HomeViews](#), an independent review platform for residential developments, issued an insights report into the Resident Perspective of Sustainability. The report established that 72% of residents said sustainability was important to them, although this varied by age and region.

There is also some evidence that properties with higher energy efficiency ratings come with a premium. Savills analysis of EPC records suggests that there is an average differential of 17% in the value of a property between a band B and band F property and an average 15% differential



between one in band D and band G. A [separate study commissioned by BEIS](#) indicates that properties with an EPC C rating were worth around 5% more than those currently at EPC D rating.

However, green credentials, especially energy efficiency, are often conflated with [cost savings from lower energy bills](#), which may indicate why buyers are willing to pay more.

### *The commercial market*

Despite the lack of comprehensive market data, some have claimed a “green premium” in the commercial sector. [Knight Frank](#), for example, has created a price model to calculate the contribution of green ratings to sales values for prime offices in a number of cities. It found an 8% to 18% price premium for green-rated offices compared to those without any sustainability certification. In central London it showed a 13% premium on rents and 10.5% on sales prices on BREEAM outstanding- and excellent-rated buildings. However, others in the market are more cautious, with [CBRE](#) for example suggesting a more modest uplift in value arising from the presence of green building features and [some noting significant regional variances](#).

### *Summary*

We need to continue to build the evidence base to really understand the importance and impact of a building's green credentials on consumer choice and on rental income and value. However, some in the market believe that, as ESG rises up the agenda for both occupiers and investors, we will see a clear “green premium” for assets strongly aligned with ESG characteristics.

For example, [Knight Frank have reported](#) that some occupiers are now demanding buildings that better reflect their values and help deliver their own ESG targets. And given that many corporate occupiers now have set their own sustainability targets that require a green-certified environment, they believe the demand for net zero building should increase.

And [JLL](#) have stated that, among investors there is growing competition to acquire assets and gain “first mover” advantage.

While a green premium is still being debated, what is more certain is the risk of a “brown discount”. As discussed in our response to question 8 above, the standards that companies expect from the properties they occupy are getting higher and buildings that do not meet them risk being left with [fewer tenant options and space that becomes harder to lease](#). In fact, there is some [evidence](#) that the risk of a “brown discount” in the future, even if difficult to quantify now, is potentially the biggest single driver of UK real estate investors' behaviour.

### 13. What impacts have decarbonisation/net zero measures had on your business?

See our response to question 9.

### 14. What more could be done to support your business and/or sector to decarbonise?

Individual businesses are already working hard to decarbonise their buildings, and the sector is working collectively to share insights and experiences. Industry initiatives such as the [BPF Net Zero Pledge](#) are helping to drive this collaboration.

However, there is only so much the industry can do alone. As set out in our response to question 9, the BPF is currently conducting research into the challenges faced by the real estate sector and how Government can support property businesses in the transition to net zero and we would be happy to share the emerging findings from the research with the review team.

We have, however, supported the work of the UKGBC in developing [a Whole Life Carbon Roadmap](#) for the industry, which includes recommendations on how Government can help property businesses and the wider sector to decarbonise.

We would also highlight two key areas where more needs to be done to help property companies decarbonise their assets:

- firstly, Government needs to provide policy and regulatory certainty to enable businesses to develop and roll out their net zero plans with confidence and make long-term investment decisions; and
- secondly, Government needs to make better use of the tax system to support and accelerate action to decarbonise buildings of all types through a range of fiscal incentives.

#### *Policy and regulatory certainty*

As reported by the [Committee on Climate Change](#), there has been limited progress on policies to support the decarbonisation of the UK built environment. In particular, there remain significant policy gaps around measures to improve the energy efficiency of all homes and buildings.

The Government's headline target is for all homes to be EPC C by 2035 but there is no comprehensive roadmap or strategy on how this will be achieved.

We are also still waiting for a decision on increasing minimum energy efficiency standards for the private rented sector.

And for commercial real estate, the Government has consulted on proposals to introduce a performance-based rating scheme for large industrial and commercial buildings, and to require a minimum EPC B by 2030 in privately rented non-residential buildings. However, there has been no significant movement on either of these proposals since 2021.

The Government needs to provide clarity and certainty on these issues if businesses are to be able to plan effectively and make informed, long-term investment decisions.

We also need clarity on how we will tackle embodied carbon emissions, although we note that the Government plans to consult next year on proposals for measuring and reducing embodied carbon in the built environment.

### *Fiscal incentives*

The bulk of the finance to decarbonise the real estate sector will need to come from the private sector. There should be, and is, Government support for low-income households and for social housing and public sector buildings. However, the majority of the cost to make our homes and buildings net zero will be borne by private individuals and private businesses.

However, Government has an important role to play. Using the tax system, the Government can help mitigate some of the upfront costs and can attract both new investment and encourage existing planned investment to be brought forward. This would also help stimulate the economy through the creation of new green jobs and help drive innovation and build up skills and supply chains across the UK,

We surveyed a small sample of BPF members in 2021 to understand what tax measures and fiscal incentives would best support businesses and the sector. The results are set out below.

Which tax measures would you support to help mitigate the costs of net zero? (Respondents could select multiple answers.)	% (responses=35)
Changes to capital allowances	94%
Zero-rating VAT on residential repairs and maintenance	83%
Changes to the REIT regime	54%
Reform of business rates	51%
Other	14%

### *Capital allowances*

We have [argued for changes](#) to the capital allowances regime to expediate retrofitting and energy efficiency improvement works for commercial real estate. For example, it can take over 16 years

to receive tax relief through the current system on particular measures (such as insulation or installing solar PV). This is far too long a time period to impact investment decisions.

### *Zero-rating VAT on residential repairs and maintenance*

BPF supports the wider sector's call for a national retrofit strategy to help retrofit the UK's 28 million homes. As part of this we would like to see a zero-rating of VAT on residential repairs and maintenance to help bring down the cost for those who want to improve the energy efficiency of their homes.

As energy efficiency improvements are often carried out as part of a larger project, we would argue for a zero-rating across all repairs and maintenance. This would also align the VAT treatment with that of building a new home, ensuring that the tax system encourages us to repair and maintain our homes. [Research](#) also suggests that this would deliver a significant economic and social stimulus.

### *Changes to the REIT regime*

Real Estate Investment Trusts (REITs) have grown in popularity since the regime was introduced in 2007. Approximately around 15% of investment into commercial real estate is now through REITs.

We would [argue for the rules to be changed](#) to encourage REITs to invest in renewable energy generation, both on and off-site.

### *Reform of business rates*

We would like to see [changes to business rates](#) to encourage investment in measures to improve the energy efficiency of buildings and in new technologies such as heat pumps and other forms of low carbon heating.

## 15. Do you foresee a role for your business within an expanded UK supply of heat pumps, energy efficiency, electric vehicles, hydrogen economy or clean power?

The sector has a significant role to play, both as a major consumer of energy and clean energy products and as an investor in renewable energy, both onsite and offsite. For example, [one of our members](#) has installed solar panel across the roof of one of its retail properties, generating enough energy to power around 200 homes.

## 17. How many green jobs do you estimate will be created in your sector by 2030?

The decarbonisation of our homes and buildings will require thousands of new skilled workers in construction and other related trades.

The Government's own [Net Zero Strategy](#) recognises that the drive to net zero by 2050 will open up new employment opportunities rights across the UK and create many new green skilled jobs.

Using current estimates and plans, the Government have suggested that the decarbonisation of buildings could support up to 100,000 jobs by the middle of the 2020s and up to 175,000 by 2030 across a range of areas – from manufacturing to services, and from installation to research and development.

Other research is even more positive. For example, [research](#) by the Construction Industry Training Board (CITB) predicts that the construction industry will require the equivalent of 350,000 new roles by 2028 to deliver on the sector's and the Government's net zero ambitions. And [research](#) from UK100 suggests that a "retrofit army" of nearly half a million builders, electricians and plumbers will be needed if the UK is to be net zero by 2050.

## QUESTIONS FOR ORGANISATIONS DELIVERING NET ZERO LOCALLY

### 24. What are the biggest barriers you face in decarbonising/enabling your communities and areas to decarbonise?

The real estate sector has a huge local impact, delivering the homes, buildings, infrastructure and places that make up our towns and cities. This involves working closely with local communities, local businesses and local government.

Many local areas have their own net zero targets and plans. Indeed, it is generally recognised that cities and regions – both in the UK and around the world – have the most ambitious and innovative carbon-reduction plans, with many committing to be net zero well before 2050. For example, London has a target for be net zero carbon by 2030. Manchester has a target to be net zero carbon by 2038.

BPF members work within local areas' net zero plans and support the ambition of local leaders to be net zero before 2050. However, there are local challenges that BPF members face when retrofitting existing buildings and developing new greener buildings. The key challenges include:

- **local grid capacity.** As more homes and buildings shift away from gas to electricity, the demands on local power grids increase. BPF members have reported challenges getting additional access to the grid in certain parts of the country;

- **local heat networks.** We recognise that heat networks have a role to play in a future energy supply mix but many networks are still powered by gas. BPF members have reported being required by local authorities to join new buildings and developments to existing gas-powered local heat networks, which impact on their ability to make those buildings net-zero carbon. There is also uncertainty over how such heat networks will be decarbonised;
- **local skills and local supply chains.** BPF members report challenges accessing local skilled workers, such as heat pump installers, and suppliers to carry out net-zero related work, such as installing solar PV); and
- **local planning.** As set out in more detail below, BPF members report a range of challenges with local planning authorities.

## 26. How does the planning system affect your efforts to decarbonise?

BPF members report a number of challenges with the planning system

- **capacity challenges,** which lead to delay and increased costs. We understand that some small local authorities have less than one full-time equivalent post working on retrofit, an area which will only get busier as more and more business seek permission to make alterations to buildings to improve their energy efficiency;
- **capability challenges,** which lead to inconsistency in decisions taken by local planning authorities. For example, [there is no clear and consistent approach to tackling emissions at a local level](#) and we hear regularly from members about inconsistent decisions from planning authorities around the use of different materials and technologies.
- **challenges in retrofitting heritage and listed buildings.**

## 27. How can the design of net zero policies, programmes, and funding schemes be improved to make it easier to deliver in your area?

Action to address the challenges in our response to question 26 would make it easier to deliver net zero buildings at a local level. In particular, better resourced and skilled planning departments.

We also need a planning system that provides a more joined-up approach to net zero, where key commitments, frameworks and methodologies are set at a national level to ensure a more consistent approach to policy-making at a local level.

What the BPF and BPF members are not calling for is any relaxation of existing environmental protections in the planning system. The planning system can be improved and streamlined, and needs to be better resourced. However, we believe that we can achieve our net zero ambitions in a pro-growth way and at the same time support nature and the wider environment.