

Insights into a Net Zero Industrial Sector



Delia Batt
Associate
Gerald Eve LLP

Gerald Eve is a firm of chartered surveyors and property consultants based in the UK, operating from nine offices with over 600 professionals. As part of their sustainability strategy, Gerald Eve is committed to being carbon neutral by 2025 and carbon negative by 2030.

We asked Delia to share her insights into how the industrial and logistics sector is rising to the net zero challenge.

Why is net zero important for the industrial and logistics sector?

“Tackling climate change is important for all businesses, and all parts of the property sector. Not just for environmental reasons, but for economic reasons. A [study](#) by Oxford Economics found that global warming of 2.2 degrees has the potential to reduce global GDP levels by up to 20%.

The built environment accounts for around 40% of carbon emissions, so we are in an excellent position as an industry to reduce carbon emissions and help alleviate the impacts of climate change.

And I think it’s particularly important for the industrial and logistics sector, as industrial users tend to be quite power-hungry”.

Is there also pressure from occupiers?

“Yes, there is increasing pressure from the market for industrial and logistical buildings to be sustainable. More and more tenants want sustainable buildings, and not just the big multi-national tenants but also smaller local occupiers. And I think there are several reasons for this.

Cost is a major reason. Sustainable buildings are more energy efficient which means they are cheaper to run. We’ve seen the cost of energy rise significantly over the last year, coming on top of an increase in business rates for the sector. So, occupiers are looking for buildings that can deliver operational cost savings.

They also want buildings that are in line with, and can help deliver, their own sustainability strategies. More and more companies are demanding environmental commitments from suppliers causing a ‘trickle down’ effect.

And they want buildings that help attract and retain staff. In a tight labour market, occupiers want to be able to offer staff a great working environment, which includes a sustainable building surrounded by green and pleasant spaces.”

Is there a green premium?

“Well, that’s the \$64,000 dollar question.

There are numerous studies coming through suggesting that buildings with good environmental credentials are attracting a rental and investment premium.

And we see lots of indicators that suggest there should be a green premium: lower operational costs, reduced void periods, stronger tenant covenant, more “sticky” tenants, lower maintenance costs. So, there are lots of factors that should add up to a green premium but it’s very difficult to come up with a precise figure.”

What about investors? Are investors demanding more sustainable buildings?

“In general, we see investors taking one of two approaches.

Investors are either targeting buildings with high environmental credentials, such as those with an EPC rating of B or more, or they are targeting value-add assets, such as buildings with an EPC rating of D, with a view to refurbishing and then re-letting them.

Of course, investors will have their own ESG strategies. But I think one trend we see across all investors is a real interest in flexible buildings in strong locations. That means buildings or warehouses that you can adapt for different uses and different clients, in areas with good transport links. This also means buildings that you can use for a long time, and we all know that the most sustainable buildings are those that are in use for the longest time.”

And is the sector rising to the challenge?

“In terms of new buildings, I think the sector is already ahead of the game, with developers delivering buildings with strong environmental credentials that are sustainable and energy efficient.

The challenge is with existing, older stock which we know is most of the stock. 80% of the buildings that will exist in 2050 have already been built.

When it comes to retrofitting these older buildings, landlords have already targeted the easy and quick wins, like installing LEDs. Any deeper retrofit of these buildings will be costly and disruptive to existing tenants.

Landlords are also worried about undertaking a lot of expensive upgrades which may become obsolete in a couple of years or may not meet future energy efficiency standards. The fact that we still don't know exactly what is happening with

Minimum Energy Efficiency Standards (MEES) in the commercial sector is a real concern.”

What specific challenges does the industrial and logistics sector face in the transition to net zero carbon?

“Grid capacity is a huge challenge for the sector.

Clients are reporting significant delays in connecting to the grid, particularly those in the industrial market, as warehouses tend to be quite energy intensive – a fact exacerbated by the inclusion of automation and EV charging.

Renewable energy developers are also facing significant connection delays, with new connection dates in the late 2030's. This is hindering the wider decarbonisation of the grid.

And fixing this, upgrading the grid, will require significant investment. [Research](#) suggests that we will need to invest around US\$1tn globally every year between now and 2050 to meet expected demands.”

What about the planning system?

“We know there are challenges with the planning system, and it can act as a barrier to development and growth in the sector.

But it's worth noting that some improvements do not require planning permission or can be done under Permitted Development rights: installing PV panels, making biodiversity and landscaping enhancements, recladding and introducing sustainable travel measures such as EV charging spaces, cycle parking and facilities.”

And finally, what's next? What trends do you think we'll see develop across the sector over the coming months and years?

“I think sustainability will become more and more important. The green premium will become more pronounced in the sector and we may see more and more secondary buildings become obsolete.

There's a lot of chat in the market about whether EPCs are the right tool, I think we will see a move towards a combination of metrics that show how the building is meant to perform (i.e. an EPC) alongside approaches which provide owners and occupiers with in-use energy data which tell us how buildings are actually performing in terms of energy consumption.

As we've already discussed, I think energy usage of industrial and logistics buildings will increase, and the demand for electricity will increase. Given grid capacity constraints this might result in more on-site renewable energy generation or more off-site generation linking directly to power individual industrial estates.

And I think we'll see buildings being built with a more flexible layout, so they are less likely to become obsolete or need to be rebuilt."



Find out more

For more information, see Gerald Eve's recent report on "[The Sustainable Estate of the Future](#)".

What is the BPF Net Zero Pledge?

The BPF Net Zero Pledge commits BPF members to be net zero carbon by 2050 at the very latest. Becoming a signatory to the pledge requires three actions:



To sign up to net zero targets and plans



To commit to sharing research, knowledge and insights on an open-source basis



To support other signatories and the wider real estate sector to speed the transition to net zero

Sign Up. Share. Support.
#BPFNetZeroPledge

