



RICS 2020 Special Report:

Sustainability issues within the built environment*

The Global Commercial Property Sector

The RICS **Green Building Index** tracks occupier and investor appetite for buildings that have received green building certifications over the past twelve months.

Globally, this indicator posted a reading of +39 (net balance) pointing to a rise in demand for green buildings in the past year

There is variation across regions (as shown in Chart 1), with this indicator higher across Europe and Asia Pacific than in the Middle East and the Americas. Furthermore, Chart 3 shows that several European nations are close to the top of the list.

Additional analysis around sustainability issues across the commercial property sector are provided on pages 3 and 4.

The Global Construction Industry

The RICS **Sustainable Construction Index** captures the extent to which climate resilience factors are considered important when completing construction projects.

This indicator came in at +38 suggesting that contributors on balance believe that building resilience to extreme weather as a result of climate change is considered to be important for projects as opposed to unimportant.

Chart 2 shows that this reading is higher across the Middle East and Africa than in other regions. Meanwhile, country level data in Chart 4 is also pointing to particularity strong readings for the Philippines and Singapore. Further detail and analysis on how green initiatives are being used across the sector are on pages 5 and 6.

Chart 1: Green Building Index

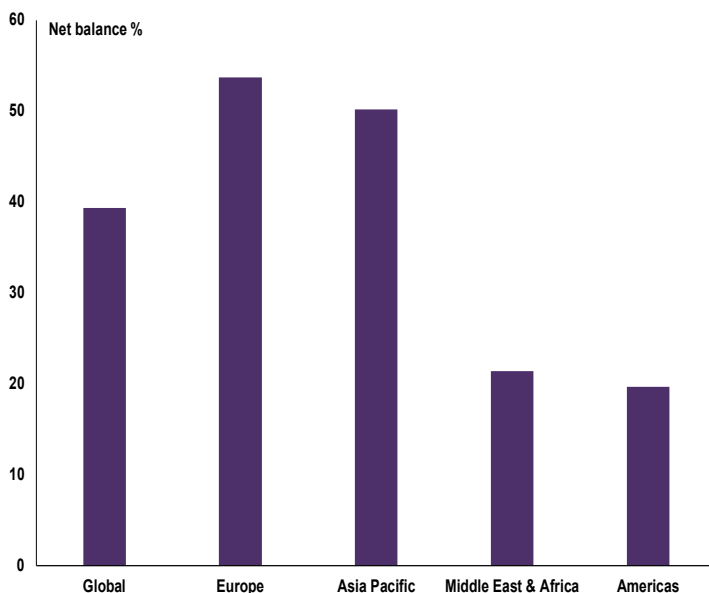
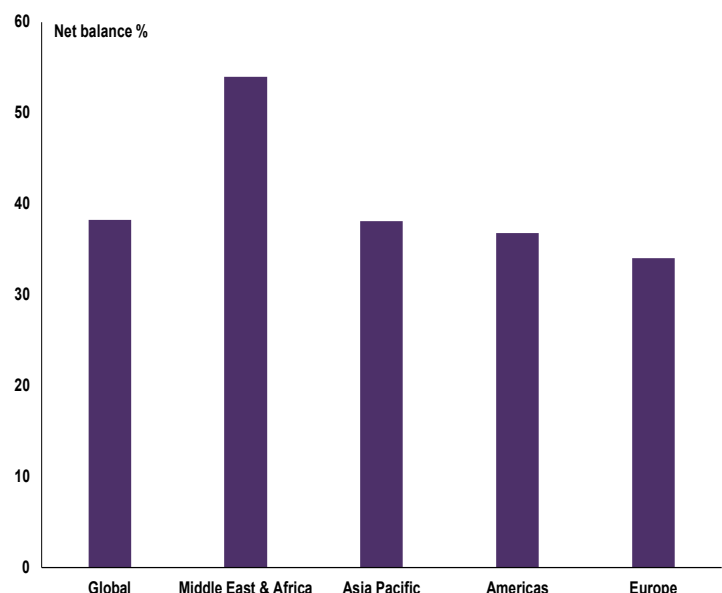


Chart 2: Sustainable Construction Index



**The RICS Global Commercial Property (GCPM) and the Global Construction Monitors (GCM) were used to draw on the expert opinions of more than 3000 real estate professionals across the world on emerging sustainability issues in the built environment.*

Chart 3: Green Building Index across countries

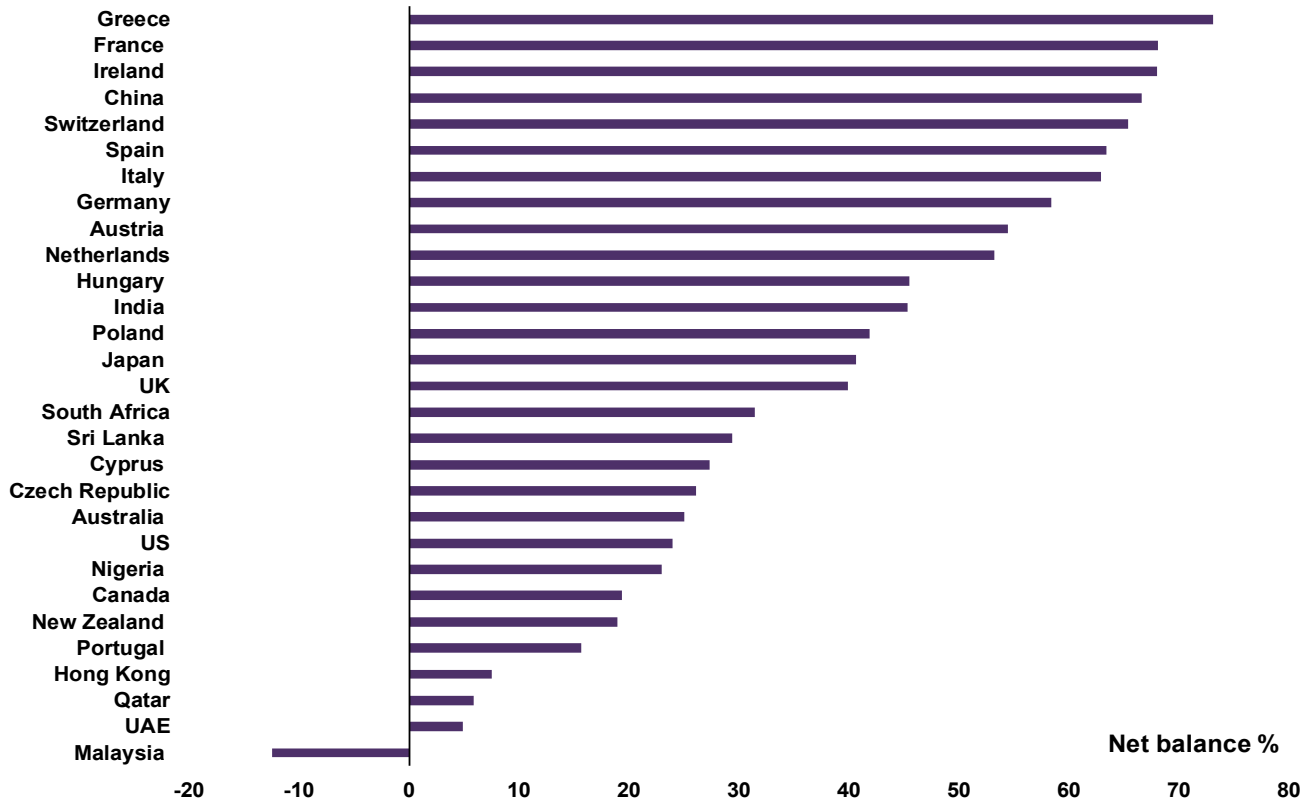
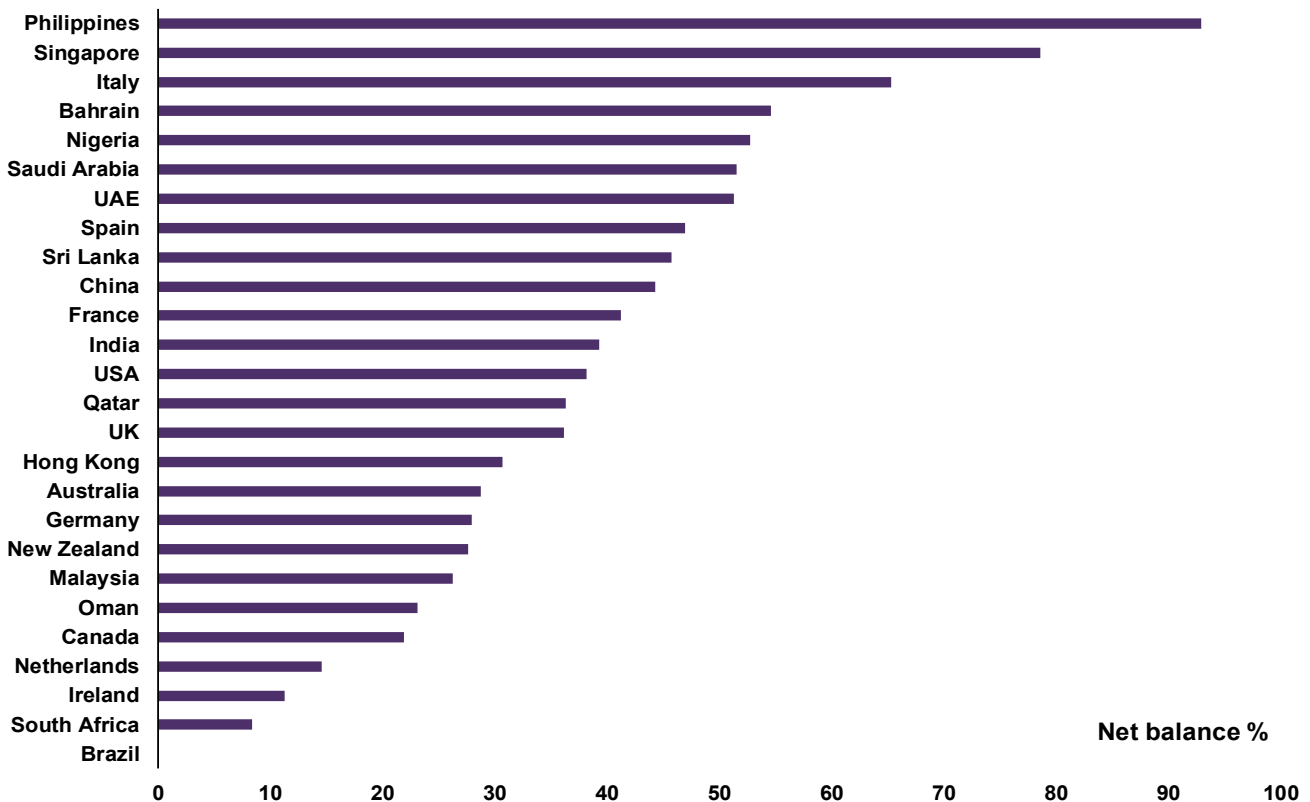


Chart 4: Sustainable Construction Index across countries



Sustainability issues across the Global Commercial Property Sector

As part of the Q3 2020 RICS Global Commercial Property Monitor, respondents were asked a series of additional questions focussing on how preferences have changed for green buildings in the past year, the impact on rents and prices and to what extent ESG factors are affecting investment decisions.

Demand for green buildings trending higher

Survey feedback from across the commercial property sector suggests that occupier and investor interest for green buildings has risen to a certain degree in the past twelve months. Globally, almost 40% of the survey participants believe that occupier demand for buildings with Green Building Certifications has risen modestly in the past year (shown in Chart 1). This share is slightly higher in Europe, with around 43% of contributors noting a modest increase, whilst Asia Pacific (APAC) appears to be leading the way with more than 50% of respondents across the region seeing a rise.

Nonetheless, it is worth noting that a sizeable share of contributors globally and across all regions state that there has been no change in occupier demand for buildings with green certifications. Across the Americas in particular, nearly 60% of respondents believe that occupier interest for green buildings has not changed in the last twelve months. At the other end of the scale however, less than 5% of contributors globally feel that tenant demand for green buildings has fallen in the past year.

Across the investor side of the market, while around 47% of the survey's contributors globally see investor demand for green buildings to have risen in the past twelve months, an equal share note no change (Chart 2). Still, across Europe and APAC, more than half of the participants note an increase in interest for buildings with green certifications. The share of contributors taking this view is the lowest across the Americas, as around one-third of participants report a rise in investor appetite for green buildings in the last twelve months while more than 50% believe there has been no change.

Green ratings add premiums to rents, prices

Even if demand has only risen relatively modestly, feedback suggests that green building certifications are having an impact on rents and prices. Chart 3 shows that globally, around 35% of contributors believe that green buildings receive a rent premium over comparable non-green buildings. The majority (more than one-fifth) state that the rent premium is up to 10%, with only 7% judging it to be higher.

Meanwhile, almost 40% state that even if there is no rent premium for a green building, those without a green certification are subject to a brown discount.

As far as price premiums are concerned, 42% of the survey participants globally state that green certified buildings attain a price premium over comparable non-green buildings. Similar to the occupier side of the market, the majority state the price premium is up to 10%. Alongside this, around a one-third of the survey's contributors believe that there is no price premium however buildings without a certification are subject to a discount.

Chart 1: How has **occupier demand** changed for buildings with Green Building Certifications* in the last twelve months?

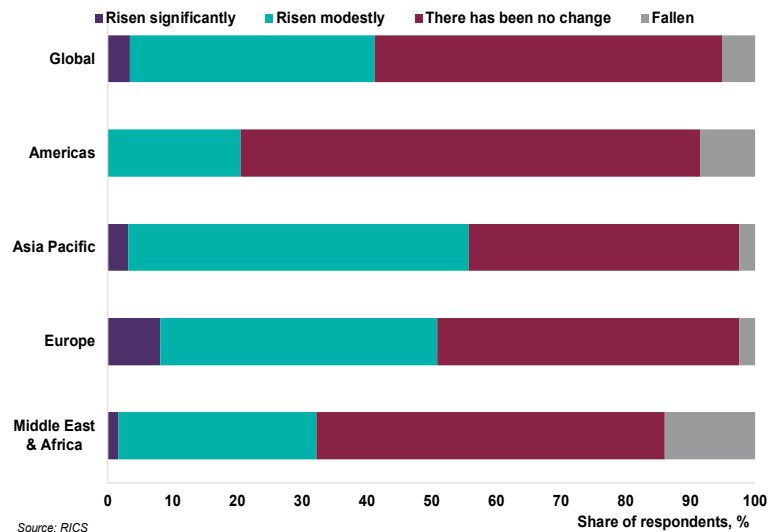
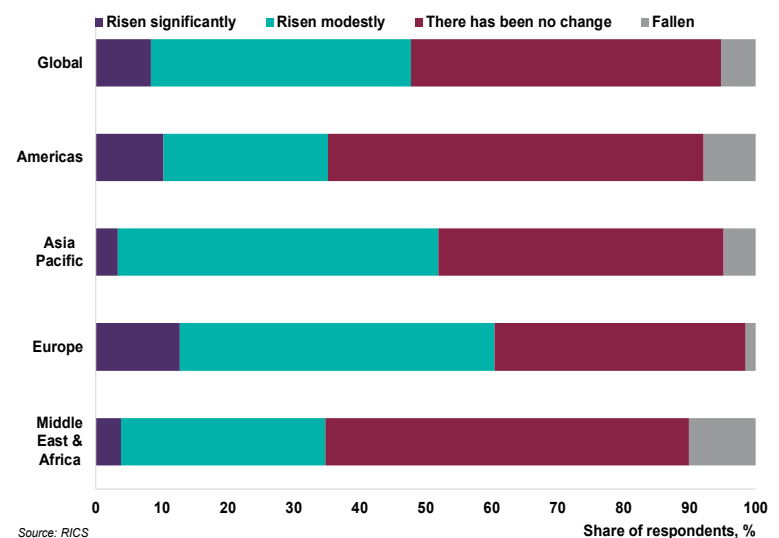


Chart 2: How has **investor demand** changed for buildings with Green Building Certifications* in the last twelve months?



Looking at the results as the regional level, Chart 4 shows that this pattern seems to be more prevalent across Europe and the Middle East and Africa as 45% of participants note that green certified buildings are subject to a price premium, higher than in any other region.

ESG not the determining factor for investors

With respect to how Environmental, Social and Governance (ESG) factors are affecting investment decisions, around one-fifth of contributors globally note that investors are favouring projects with high

*Includes BREEAM, LEED, Green Star, WELL, Passivhaus or any other certifications specific to the region

ESG ratings. Meanwhile, the majority of contributors (around 64%) believed that while investors have expressed interest in ESG related factors, the underlying decisions were still based on traditional cost matters.

When disaggregated, feedback from European countries depicts a slightly more encouraging picture. Chart 5 shows that out of the top 10 countries that have the highest share of contributors that believe investors are favouring projects with high ESG-related ratings, 6 of them are in Europe. Indeed, Spain, Poland and Italy are close to the top of the list while a modest shift in investors' preferences for ESG factors is also noted from contributors from Ireland, France and Austria.

Away from Europe, some advancements have also been reported from contributors in China, US and Sri Lanka. Across China in particular, which appears to be leading the pact, more than one-third of participants note that investors are favouring projects with high ESG-related ratings. In the US, this proportion stands at around 25%.

Nevertheless, it does seem like sustainability and environmental factors are still not at the forefront of mainstream investment decisions across the majority of countries. Across prominent commercial property markets, the share of respondents seeing investor's favouring projects with high ESG-related ratings is less than 10% in the UK and Japan and virtually zero in New Zealand.

Chart 3: Do Green Certified Buildings achieve a **rent premium** over comparable non-green buildings?

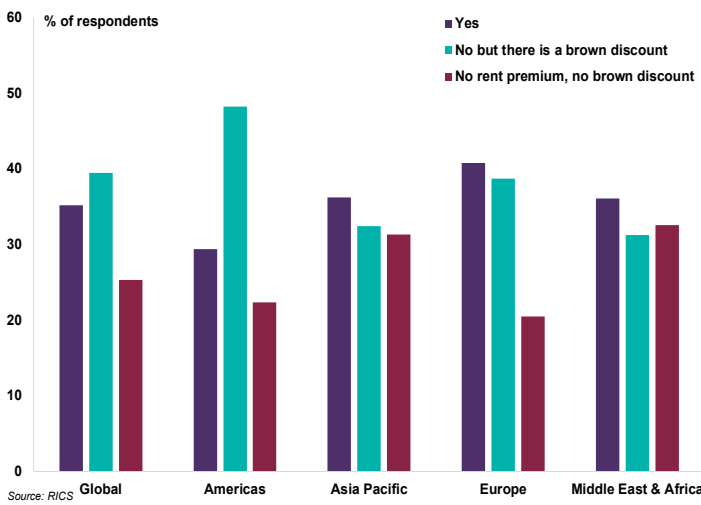


Chart 4: Do Green Certified Buildings achieve a **price premium** over comparable non-green buildings?

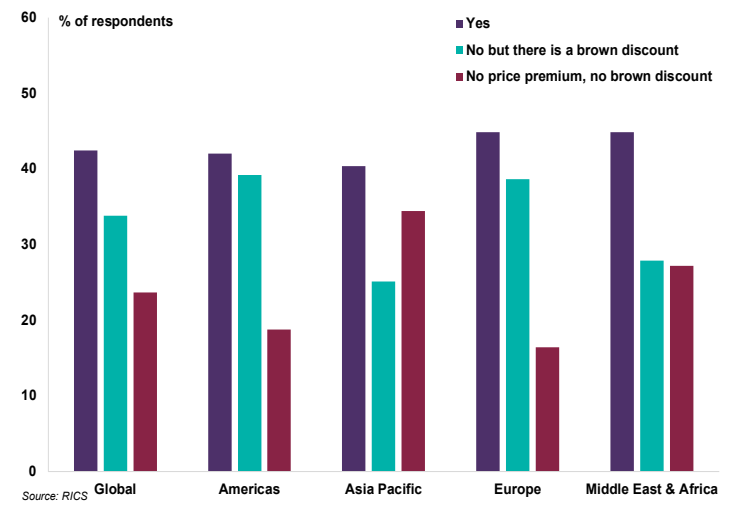
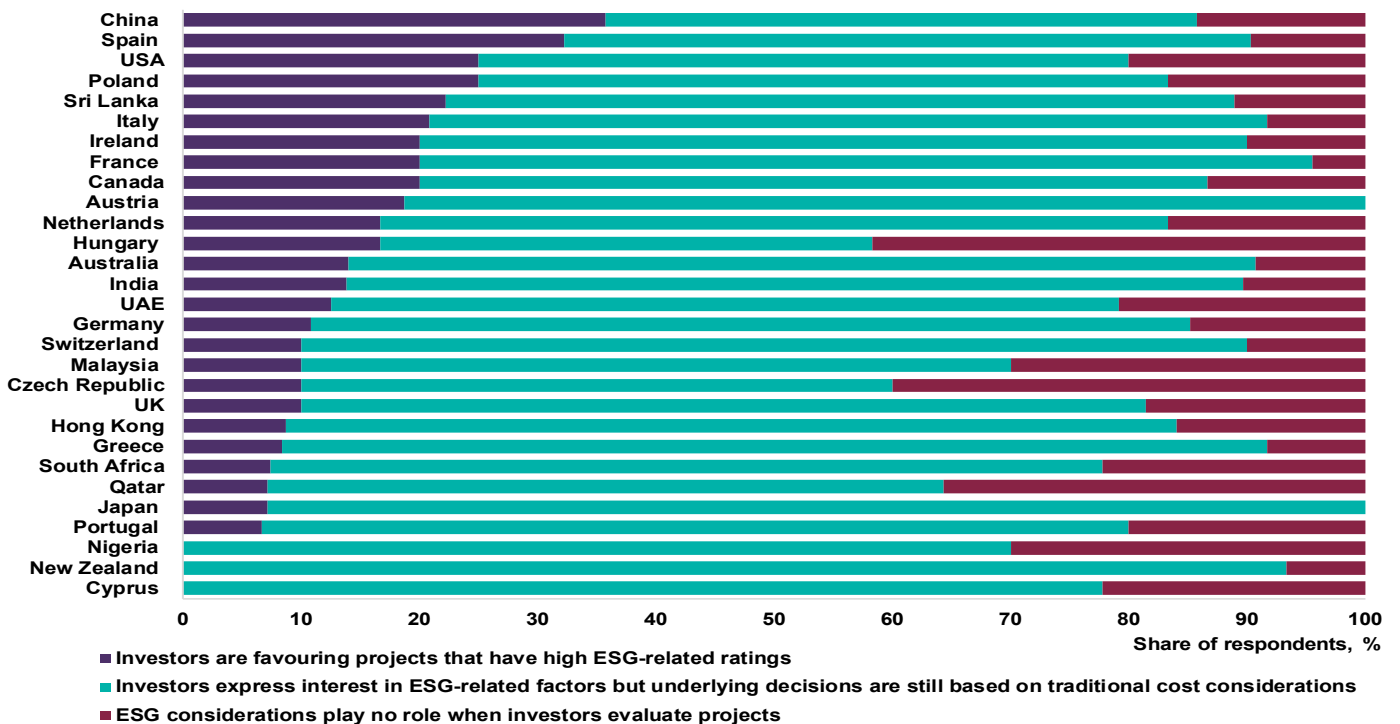


Chart 5: How are environmental, social and governance (ESG) factors currently affecting investment decisions?



Source: RICS

Sustainability issues with the Global Construction Sector

As part of the Q3 2020 RICS Global Construction Monitor, respondents were asked a series of additional questions focussing on how sustainable and green initiatives are being used to complete projects, the use of circular practices in construction and around the significance of measuring embodied and operational carbon in projects.

Resilience to extreme weather seen as important

Feedback from professionals suggests that climate resilience factors are currently being taken into consideration across the construction sector. Globally, around 37% of contributors to the RICS survey believe that building resilience to extreme weather as a result of climate change is considered to be important for the majority of new projects.

When disaggregated, as Chart 1 shows, the share of participants taking this view is the highest across the Middle East and Africa (MEA) and Asia Pacific (APAC). Meanwhile, Europe appears to be at the bottom of the list with only around a quarter of participants stating that climate resilience factors are being taken into account for the majority of new work. Instead, more than 50% of participants across the region report that building resilience to extreme weather is considered to be vital only for a small number of new projects.

Resilience less of an issue for repair & retrofit work

In comparison, these issues are seen as less crucial for repair and retrofit work. Globally, around a quarter of survey participants believe that such factors are considered important for the majority of repair and retrofit projects. Significantly, around 40% believe that building resilience to extreme weather is regarded to be vital only for a very small number of repair and retrofit projects.

It should also be taken into account that around one-third of survey participants across the globe state that climate resilience factors are not considered to be at all important for repair and retrofit work. As shown in Chart 2, the share of participants taking this view is broadly similar across all regions.

Demand for recyclable materials has risen on balance

With respect to how circular economy practices are currently being used across the sector, around 15% of material and components costs are seen as being made up of recyclable and reusable materials and components globally. As shown in Chart 3, this proportion is slightly higher across APAC where roughly 18% of materials and component costs were seen as coming from recyclable and re-usable sources.

Globally around 44% of contributors believe that the demand for recyclable and re-usable materials has risen in the past year. As shown in Chart 4, the share is slightly higher across APAC and Europe with around half of the survey participants seeing a modest increase.

Although many respondents have not seen any change

Still, it is worth noting that a sizeable share of respondents globally and across regions state that there has been no change in demand for re-usable and recyclable materials over the past twelve months. Indeed, across the Americas, almost 60% of participants state that demand for such materials has remained unchanged in the past year compared to

Chart 1: Is building resilience to extreme weather as a result of climate change considered to be important when designing **new projects**?

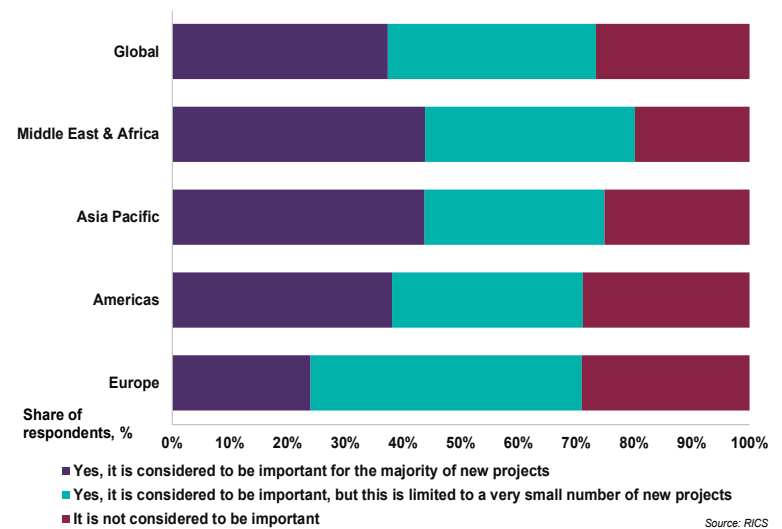
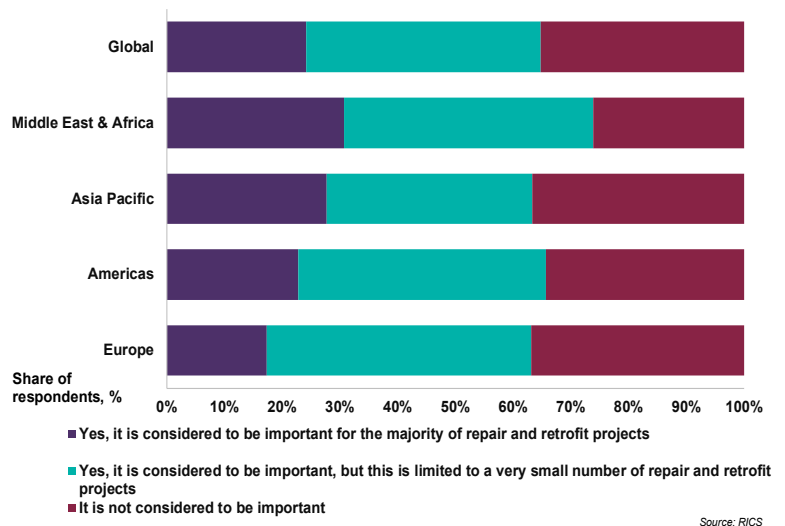


Chart 2: Is building resilience to extreme weather as a result of climate change considered to be important when completing **repair and retrofit projects**?



other materials and components.

Carbon emissions generally are not being measured

As far as measuring carbon emissions of construction work is concerned, almost two-thirds of the professionals globally state they do not measure carbon on projects. Significantly, this share is higher across MEA and the Americas, standing close to 77%. Even if embodied and operational carbon is being measured across construction projects, there is little evidence to suggest

that this is having a meaningful impact on the choice of materials and components that are used. Indeed, around 19% of respondents claim that they do measure carbon but this does not substantially affect the choice of materials and components. Critically, only 18% of participants globally state that embodied and operational carbon is both measured across projects and that it also significantly affects the choice of materials and components.

Disaggregating the results, Chart 5 shows that more than half of contributors across most countries covered in the survey state they do not measure carbon on projects, with around 60% of contributors in the UK and China and roughly two-thirds in the US indicating this to be the case. This proportion is close to 80% across Brazil, Oman and Ireland.

Meanwhile, Germany and the Netherlands are placed at the other end of the scale, with a little over one-third of contributors stating they do not measure carbon across construction projects. For those that do, the majority (43% in Germany and 50% across the Netherlands), state this does not have a significant impact on the choice of materials and components.

That said, feedback from other countries depicts a slightly more encouraging picture.

In Spain, almost 60% of contributors state that they do measure carbon and that this does have a substantial impact on the choice of materials and components. Across India, this proportion stands at around 42%.

Chart 3: For construction and retrofit projects, and excluding interior fit-outs, what proportion of materials and component costs is made up of recyclable/re-usable materials and components?

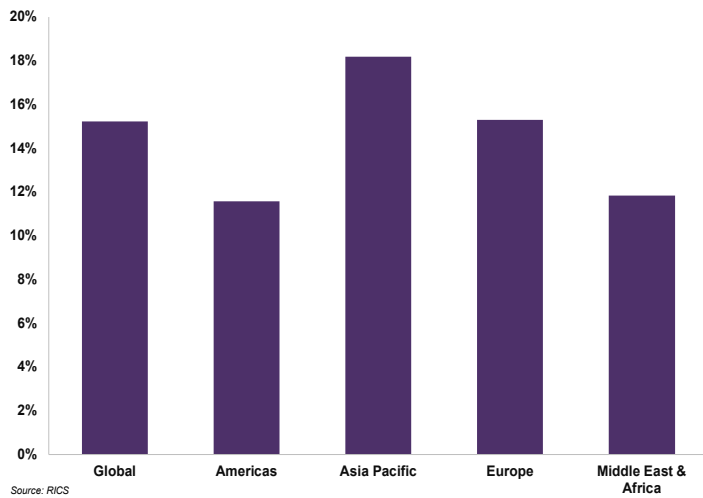


Chart 4: How has the demand for recyclable/re-usable materials and components changed in the past twelve months, compared to other materials and components?

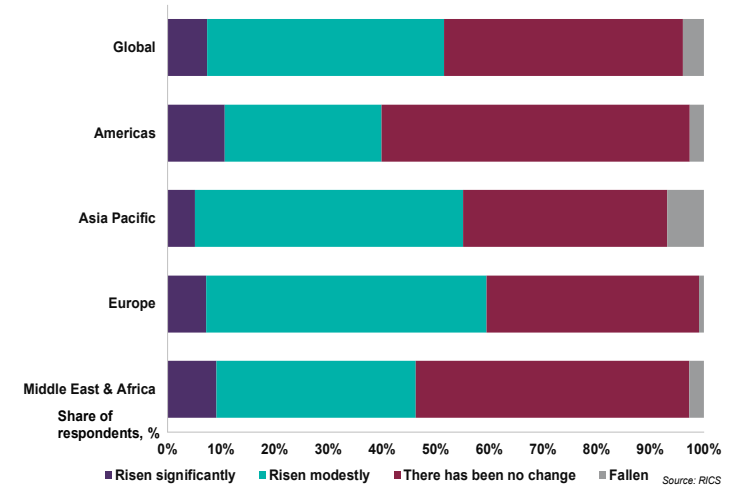
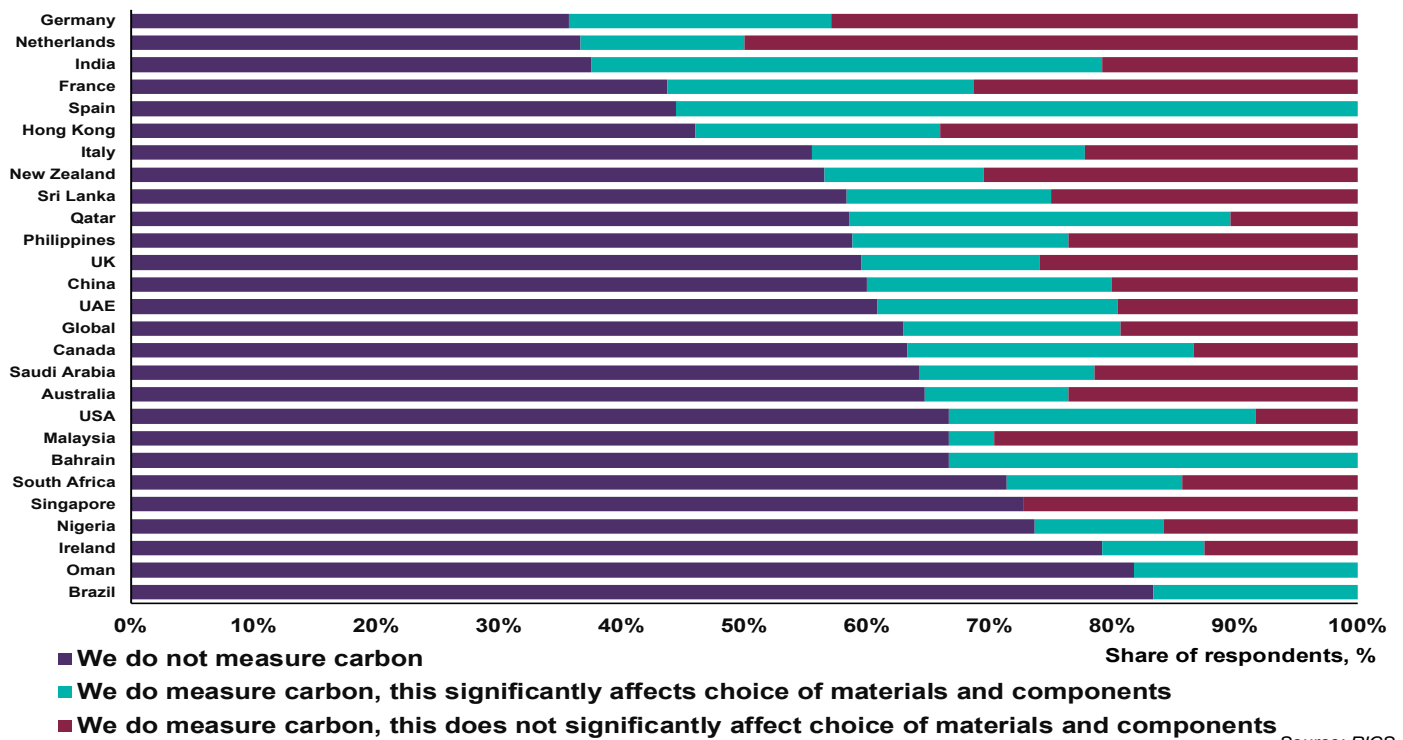


Chart 5: Do you measure embodied and/or operational carbon on your projects and, if so, how significantly does this affect the choice of materials and components?



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