The Green Construction Board

GCB610 - Mapping the Real Estate Lifecycle for Effective Policy Interventions
GCB610: “Mapping the Real Estate Lifecycle for Effective Policy Interventions”

Charles Woollam, Partner, SIAM LLP
Sarah Sayce, Emeritus Professor, Kingston University
Adam MacTavish, Director, Sweett Group.

“Mapping the Real Estate Lifecycle” for policy-makers

- Which are the key events?
- Who is involved?
- Who makes the decisions?
- Who influences them?
- What are people’s motivations?
- Where might policy-makers look for future, effective interventions?
Conventional Lifecycle

- Conventionally, the lifecycle is shown as starting with design and construction...
- ...through commissioning and handover into an “in use” phase.
- Then round to eventual demolition and re-building, when the lifecycle starts all over again.
• Important to consider the length of each “phase” – the longest (by far) is “in use”.

• Interventions targeted at construction have the biggest impacts...

• ...especially when buildings are vacant as works can be more extensive and cost-effective.

• But they don’t happen often

• Are there also opportunities elsewhere in the cycle?
Events: Physical

- There are different types of physical events during the lifecycle.
- From demolition and rebuilding through refurbishment and periodic re-fitting
- And daily maintenance and “running” repairs.
Events: Constant

Then there are many “constant” or “recurring” events – like paying rents, rates and energy bills.
Events: Periodic

• “Periodic” events happen at fixed intervals.

• Rent reviews, for example, are normally every five years.

• Lease renewals can happen every five to ten years.

• Rating re-valuations are also (meant to) take place every five years.
Then there are “occasional” events.

These happen from time to time, often at irregular and unpredictable intervals.

Selling buildings, for example, re-arranging funding or re-lettings.
Events

- Colour-code events by their type.
- Leave physical events in blue.
- Red for management or economic events.
• Helpful to show events separately which normally involve properties being empty.

• These are now yellow.
Events: Funding

• **Show funding events in green because the use of debt is key in both domestic and non-domestic sectors.**

• **Almost two separate lifecycles: the physical and the economic/use.**

• **They are inter-related but not always as closely as might be thought.**

The Green Construction Board

- Demolish/rebuild
- Replace obsolete components
- Major refurbs
- Major "churn"/ Re-fit
- Maintenance & Repairs

- Management & use
- Payment of rent
- Payment of rates and taxes
- Payment of utilities

- Lease renewals
- Rent reviews
- Rating revaluations
- Re-paying debt

- Voids
- Marketing
- New lettings
- Selling buildings
- Re-arranging debt
Events: Frequency

- All the different events happen at different frequencies. We need to consider how often they happen. Little and often may be as powerful in terms of effective intervention opportunities as big but infrequent.

- For this illustration, we have taken the expected lifespan of a building as 60 years+ (but in reality this is highly variable).
Events: Frequency

- Starting with the physical, the events are set out along a timeline.
- Physical events can be opportunities to make significant improvements...
- ...but happen quite rarely and - usually - the better the building, the rarer the event.
Events: Frequency

• Note, too, that properties are not usually empty very often, especially when owner-occupied - but even if tenanted...

• ...the average length of a lease may be five years but many tenants renew (and have a legal right to do so)...

• ...so the length of a lease is NOT the same as a tenant’s total period of occupation.
• Many of the most frequent events are economic or management, not physical.

• Need to explore the relative impact of the different events

• Adding in a "Y-axis" helps to show this.
Events: Impact

- Now we show the frequency of events from left to right.
- And impact of events from top to bottom.
- At top right, then, there are high impact events that happen infrequently.
- At bottom left, there are frequent events which have little impact.
Number of properties

- Now we adjust the size of the bubble to show the relative numbers of properties “caught up” in different events.
- The occupier of almost every property, for example, pays rates or council tax.
- But there are no rent reviews or renewals for owner occupied buildings.
Participants (1): Principals

- There are four broad types of participants in lifecycle events.
- The first is “principals”. This includes investors (who own property for income and capital growth).
- Some landlords let buildings for other purposes e.g. local authorities to provide local amenities and occupiers dealing with surplus space.
- There is also a large number of occupiers who own their buildings.
- And then there are tenants.
Participants (2): Advisors

- Large cast of supporting players who come and go during the lifecycle.
- It includes lawyers, valuers and agents.
- Together with property managers, facilities managers, engineers, architects etc.
- The influence of each group “waxes” and “wanes” at different times in the lifecycle.
• Lenders, including banks, are very influential.

• Then there are professional/industry bodies such as CIBSE, RICS, RIBA, BPF etc.

• Shareholders, customers and even rivals may also influence how a stakeholder - especially a principal - behaves.
Participants (4): Regulators

- The Government – central and local.
- Planning and Building Control
- Also, financial regulators, such as FSA
Participants: Non-Domestic

- Many assume that the market is dominated by investors – BPF say (rightly) that 65% of non-dom buildings are “invested”.
- By floor area (and almost certainly by volume of CO\(_2\)e), a larger proportion of buildings is held other than for investment purposes.
- This will include a larger proportion of buildings which are occupied by their owners than many might expect.

Participants: Domestic

- It is similar in the domestic sector.
- Here, 65% of residential units are owned by their occupiers.
- Only 35% are leased.
A larger than expected proportion of buildings may be occupied by their owners.

This means that many buildings do not have a landlord or a tenant.

“Owner”, “Landlord” and “Tenant” are generic terms for diverse groups who have widely different motives.
Who is in charge here?

• Management of between 33% and 50% of tenanted buildings is devolved to the occupier.

• Even in multi-tenanted buildings, the landlord’s control is generally confined to shared services and common areas.

• Tenants have full control over the areas they occupy.

• This means that investors’ control over energy/carbon is limited.

Source: SIAM LLP
Other Stakeholders

• A diverse group of specialist advisors operate in a highly competitive environment.

• Values are set with reference to “open market” transactions. Valuers simply cannot reflect issues in valuations that are ignored in transaction prices.

• For lenders, many loans are done at corporate or portfolio level, where the quality of individual buildings is less significant.

• The picture is changing - but slowly
Motivations

- Compliance with statutory interventions is widely regarded as essential.
- Both owners and occupiers are strongly influenced by financial considerations.
- Many participants accept the importance of energy efficiency; but it is often not the top priority.
- Some statutory interventions would be welcomed “to level the playing field” (or for simply to make it easier to “do the right thing”).
Quadrant Analysis

Four quadrants help us to understand the lifecycle better.

- **Top Right:** infrequent events with a big impact. (MAINLY ALREADY TARGETED)
- **Bottom Right:** infrequent events where energy efficiency has low/no impact (LOWER PRIORITY).
- **Top Left:** regular events where energy efficiency etc. already has a big impact. (POTENTIAL TO TARGET).
- **Bottom Left:** regular events where there is currently little impact but which could be used as "levers" to stimulate physical events. (INVESTIGATE).
Key points

• Some of the best opportunities do not happen very often.
• There are many constant and regular economic and management events that currently have no impact...
• ... but could be used as levers to accelerate change.
• There are important differences between the domestic and non-domestic sectors but both are dominated by owner occupiers.
• Most participants take compliance with statutory interventions as a given, if only to protect value and reputations.
• Some participants accept that energy efficiency will be achieved at a cost and would welcome interventions if it means that the cost is distributed fairly.
• There are still many untapped opportunities for effective policies.
The Green Construction Board

GCB610: “Mapping the Real Estate Lifecycle for Effective Policy Interventions”