What does 2010 hold in store?

Despite the absence of a legally binding agreement at the Copenhagen summit, all signatories agreed to try and limit global warming by no more than 2 degrees. For the US this translated into a pledge to cut emissions by 17% by 2020, conditional on domestic legislation being passed. The EU stepped up its previous commitment of a 20% reduction by 2020 compared to 1990 levels, to 30%. How this will impact commercial property is unknown, but its fair to say that legislative requirements are set to increase.

So what faces the commercial property sector in 2010?

Our guess is that this year we will see increasing occupier preference for 'green' buildings that possess low operational expenditure characteristics. Up until now it has only been the large corporates who have shown a clear preference due to CSR policies. This is likely to widen out, partly driven by legislation and associated cost savings, but also by the requirements of their staff which is increasingly influencing occupier decisions.

We suspect that this preference will lead to greater levels of sustainable refurbishment. Landlords/ investors will look to improve building efficiency and in turn reduce occupational cost, including lower service costs, in order to capture demand from existing and prospective tenants. As a result we are likely to see the increasing use of refurbishment ratings, such as RICS' Ska Rating, in marketing material as has been the case with BREEAM ratings on new developments.

This year may also see new debates come to the fore. One such debate is the 'green' premium vs the 'brown' discount. While a number of international studies have identified a value premium for 'green' property, in the UK the evidence has been inconclusive. However, occupier preference for sustainable buildings, despite their general unwillingness to pay more for them, points to shorter void periods, therefore enhancing long-term investment performance over standard buildings.

The business benefits of improved sustainability, such as reducing the risks associated with potential energy supply disruption (energy supply security*) and enhanced work place productivity, are also set to come to the fore. This will increasingly feed through to greater occupier preference for 'green' buildings.

The key feature of 2010 will be the raft of legislation that is set to come into effect, such as the Carbon Reduction Commitment (CRC)*, changes to Part L and Feed-in Tariff's (FIT)*.

Of these, it is the CRC that is likely to have the most significant impact. There are those who believe that the scheme will be scrapped or modified, happy to pay the penalty for non-reporting if it does come into effect. However, there will be a significant number of participants who will take it more seriously. The participant league table, based on emission reductions, will mean that certain participants will be keen to improve their ranking in order to enhance brand and profile. One way of achieving a potential reduction would be through their property choices, which could have important implications on developers/ investors attitudes to 'green' development and retrofitting. Ensuring new and existing buildings can help occupiers reduce their possible exposure to the CRC will prove beneficial in terms of maximising occupancy and therefore reducing voids..

The planned changes to Part L this year will tighten up current building regulations. It will also require enhanced building performance in terms of emissions for new build and renovation projects (25% reduction in CO_2 emissions compared to 2006 levels).

The planned implementation of Feed-in Tariffs (FIT) is part of the Government's aim to encourage greater on-site renewable generation. The scheme operates by paying participants for the energy they generate on site, with an additional payment for what they feed into the national grid. Dependent on the finalised tariff rate for energy generated on-site, it may prove beneficial to landlords/ investors as it will assist in reducing payback periods for renewable technologies, while also generating an additional income. However, the degression rates applied to the tariffs means that there is a relatively small window of opportunity for investors/ landlords in order to maximise returns on the installation of new technologies.

While we are still faced with the hangover from the financial crisis, environmental concerns have not disappeared. The Government will step up their commitment to reduce emissions through greater legislation. Up until now, this has been largely aimed at developers/ landlords, but this looks set to shift towards the end users of commercial property. It will be this shift that will have the greatest impact on the property sector, particularly in terms of tackling the biggest problem - the improvement of existing buildings.

*Note: please see our previous research notes on Security of Supply, CRC and FIT's available at www.savills.co.uk

Sustainability Briefing

Key legislation and trends in 2010

Trends	Legislation
Increasing occupier preference for 'green' buildings: Driven by preference for properties with low operational expenditure. Savills 2009 Office Occupier Survey found that environmental performance appeared in the top 10 building features rated important when selecting new premises. This is likely to move up the agenda.	**Carbon Reduction Commitment (CRC):** Comes into effect in April 2010. The first year is a reporting year only. Installation of Automated Meter Reading (AMR) likely to prove beneficial to participants plus those outside the scheme, as it will enable better energy and utility measurement. Further information on the CRC can be found in our previous research note available at www.savills.co.uk
The 'brown' discount: There is lack of evidence in the UK of the existence of a 'green' premium. Rather, fund managers are recognising that there is a potential detrimental impact on long term values by not improving the environmental performance of their assets.	**Part L amendments**: Tightening up of current regulations as buildings are not performing as designed. Many of the changes intended are planned to tackle this. The changes will also require a 25% aggregate reduction in CO_2 emissions compared with 2006 levels. Amendments planned to come into effect in April, if this slot is missed it will be in October 2010.
Security of supply: Resource availability, delivery constraints, costs and legislation are all set to increase. This will have significant impacts on businesses future growth and performance aspirations. Improved building and occupational efficiency would be required to tackle this. Analysis of energy procurement process may also be required.	**Feed-in Tariffs (FIT)**: Applies to on-site renewable technologies, guaranteeing an above market, fixed, price for any electricity generated on site, plus an additional 'export' rate for any energy fed back into the grid, for a period of up to 20 years. Tariff rates will be dependent on the technology employed. Further information on FIT's can be found in our previous research note available at www.savills.co.uk
Improved productivity: Studies outside the UK have found relationship between building sustainability and employee productivity. As labour costs account for the bulk of business expenditure, improved employee productivity would off-set any potential increase in cost associated with more sustainable buildings.	

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