2018 Property Predictions: Sustainability & Innovation

Here, you will find our prediction for the top five sustainability and innovation trends for 2018, incorporating the impact of minimum energy standards, technological development and the government's agenda on the property sector.

Countdown to April 2018: the minimum energy efficiency standard kicks in

The property industry has been aware of the Minimum Energy Efficiency Standards (MEES) for a few years now. It will be unlawful to let commercial properties below an EPC rating of E from April 2018. Following timely action by the more prudent investors, there will be greater evidence of risk being priced into investment deals, of lease provisions being revised to enable compliance and of uptake of energy efficient refurbishments. A likely outcome of this will be better information on standardised costs of upgrades.

Despite the advance warning, many landlords have still not engaged with the regulations, leaving nearly one in six properties at the risk of being noncompliant. We expect to see a flurry of leasing activity by such landlords seeking to avoid penalty by finalising a new lease before April 2018. Tenants may seek to capitalise by pushing for more favourable terms.

Landlords should be aware of the 2023 compliance deadline when MEES would apply to all existing leases as well, requiring either lease breaks or in-situ upgrades. Also, over the year, the first set of commercial EPCs dating from 2008 will be up for renewal. Given the changes in the assessment methodology, it is expected that a significant proportion of D and E rated assets will fall below compliance, exposing landlords to a much bigger risk than anticipated.

There might be clarity on the longer term trajectory of EPCs. The Clean Growth Strategy sets out a proposal for the majority of domestic properties to be EPC C by 2035 and we anticipate a similar level of ambition for commercial properties.

The property industry will focus on the need for a diverse workforce

All UK-based employers with 250 or more staff have up until April 2018 to publish data on the pay gap between their male and female employees. According to 2016 ONS data, the pay gap for all employees, both part time and full time, is 18.1%. There are likely to be even wider gaps for traditionally male oriented industries such as construction, real estate and finance.

The legislation will encourage businesses to understand the root cause for such differences and to invest in solutions to promote gender equality. Companies like Lendlease and Landsec have already published and are taking proactive measures to addressing the gap. We expect many to follow suit, committing to active investment, inclusive recruitment rules and engagement campaigns to address unconscious bias. Some forward thinking businesses will use this opportunity to go beyond gender inequality and to focus on ethnic minorities and other marginalised groups as well. Our industry will start to realise that recruiting from a diverse pool of candidates will become a critical success factor as the war for talent intensifies.

Electric Vehicles gearing up to being the mainstream choice

Technology remains a key theme across alternatives and will increasingly improve margins in a number of sectors. A key example is automotive: Government policy and manufacturer-led innovation is supporting the growth of ultra-low emission vehicles (ULEVs) which is set to have a transformative effect on many locations and sectors. To enable this transition from petrol and diesel, there is an urgent need for investment in the supportive infrastructure. A recent survey of Local Authorities (LAs) carried out by JLL and the British Parking Association (BPA), revealed that nearly one third of LAs have no EV charging points. And of the LAs with charging facilities, less than 20% of points are located 'On Street'. The situation is similar in strategic locations as well, with the average number of charging points per shopping centre standing at just 0.68. The good news is that the Government sees this as a priority and, as stipulated in the Clean Growth Strategy, is committed to developing one of the best electric vehicle charging networks in the world. The 2017 Autumn Budget saw Chancellor Philip Hammond pledge to establish a new £400m charging infrastructure fund. This should attract greater private sector investment in charging infrastructure within strategic locations as well as the much needed 'On Street' parking with Local Authorities.

2018 will be the year in which the industry finally takes technology seriously

Many other industries have already seen a complete reshaping as a result of digital innovation – think music, TV and photography – all of which look very different than 10 years ago. Our industry has as yet been relatively unaffected, but the change will come fast. We saw a number of new senior appointments by large real estate companies in 2017 to help drive this change, and it is likely that CTOs or CDOs will be commonplace on all real estate boards in the coming year(s). Additionally, the big agents and professional firms will invest more in research and development, and adopt more agile technology and innovation teams in order to respond more quickly to client demands and technological advancement.

Technology teams will expand with a particular emphasis on Data Scientists. These are among the most in-demand roles for any corporate right now so attracting them will be a challenge – not least because the industry won't just be competing within itself. This will become a key battleground in the war for talent in years to come. Alongside this, we will see the growing adoption of specific technology platforms to drive advisory, investment, management and development processes – thus supporting the continued growth of the 'PropTech' sector. Although at the moment it is confined to helping the existing industry work more efficiently – mainly through digitising analogue processes – it is bound to be more profoundly disruptive as technologists understand more about property and more VC money pours into this sector.

Space will increasingly be regarded as a service – and treated accordingly

Whether in retail, offices or industrial, occupiers are demanding more flexibility. The faster pace of growth, entrepreneurship and disruption means that long-term commitments, at least outside core functions will become rarer. Companies will gravitate towards locations where they can easily expand and contract, accessing different types of space where and when they need it. There will still be a need for highly-specified space, designed with a specific company's needs and brand in mind – but it may be a smaller part of the market. This even applies to warehouse space, where – notwithstanding supply shortages – space-on-demand may begin to emerge.

At the same time, there will be an ever-increasing focus on amenity and service - from concierges and programmed event space, to a curated F&B offer within shopping centres or large developments. It even extends to co-working space in hotels, the provision of co-living for mobile young talent or housing with care for older generations. Concepts from hospitality and retail are bleeding into every sector.

Sophie Walker
UK Head of Sustainability
sophie.walker@eu.jll.com
+44 (0)20 7399 5050

Emma Hoskyn
Team Director - Upstream Sustainability Services
emma.hoskyn@eu.jll.com
+44 (0)20 7399 5150

Alex Edds
Director of Innovation
alex.edds@eu.jll.com
+44 (0)20 7399 5333

Sonal Jain
UK Sustainability Director - Clients
sonal.jain@eu.jll.com
+44 (0)20 7399 5461