Posted 22 January 2018

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Looking ahead to 2018

It's always interesting looking back at the end of a year on the predictions for 2017 and seeing how accurate they were. For sustainability, which tends to take views over decades, a 12 month horizon might seem pretty easy...although 2017 hasn't exactly been a normal year!

Predictions of a rising interest in sustainability amongst business has proved to be true, although the issue has been on the up and up for several years now so that's a relatively safe one. M J Mapp has seen more clients seeking our help in providing data and advice and guidance on how it might be used. GRESB continues to drive this interest with more clients responding to the benchmark than ever before in 2017.

Globally, instances of divestment in fossil fuel interests have grown, as we lurch into action to keep our global temperature rise to below 2 degrees, this may accelerate now with announcements just before Christmas that the Government will drop the "best returns" rules around fiduciary responsibility. Pension schemes will now be allowed to mirror members' ethical concerns and address environmental problems through their investment decisions.

So what about 2018? Ignoring the pundits for a while and focussing on what we know of the property sector there are 5 key areas of interest for 2018;

1) MEES is right around the corner...are your properties going to be worthless come April?
2) The car revolution….is there an opportunity to install charging points for electric vehicles at your properties?
3) Buildings and the spaces within them can make us all more productive...if they are designed with people in mind. Can yours be improved?
4) Re-Made in China? Not anymore...but at what price?
5) Carbon reporting is dead, long live carbon reporting!

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If that's piqued your interest...read on!

1) MEES

April 2018 seemed a long way off when the concept of a minimum standard for energy performance in buildings first joined the regulatory discourse back in 2011. Many were certain that the idea's time would never come and even since the enacting legislation was passed in 2015 many conversations debate the extent to which the Regulations will be enforced.

As Agents we can only advise on the content of the legislation and highlight the associated risks and opportunities it presents to our clients. The position will be reviewed throughout the year as precedents are set on sales and lettings of substandard buildings or building units.

We must ensure we are reviewing our clients' portfolios and highlighting the potential value at risk either through an inability to market, or potential reduction in value. There is an opportunity to engage both the Sustainability and Building Consultancy teams where EPCs rated F or G exist to identify ways of improving the building rating.

It must also be remembered that, from 2023, the Regulations apply to ALL commercial property which will affect how we relate to and engage with occupiers at the buildings we manage.

2) EVs

Electric vehicles had, until 2010, struggled to find a place in the mainstream market and even since then have struggled to dent the traditional petrol/diesel monopoly due to expensive upfront costs, and limited range and charging infrastructure. However, battery prices continue to plummet (down 50% since 2014) and the mileage range continues to increase making them an ever more attractive proposition for consumers.

The smart money is suggesting that, even as soon as 2019, price parity will be achieved making new vehicle purchasing decisions heavily weighted in favour of electric, far sooner than Government targets for both England and Scotland.

While the technology is almost where it needs to be the infrastructure for charging away from the home isn't. At present there are 13,000 charging points nationally, the Government (based on their targets) suggest 3.2 million will be required by 2050, though given the speed of change in the industry this looks likely to be required far sooner.

As managers of commercial property there is an opportunity to add value through the phased implementation of charging hubs at our clients' buildings. Occupiers may start to demand vehicle charging in private car parks at office buildings and business parks, while at retail property the ability to plug in while shopping will drive footfall, and increase both dwell time and customer loyalty.

We will be organising a specific session on this subject in the new year but this needs to be on your radar.

3) Productivity

2017 was the year we learned that UK productivity is over 15% lower than the rest of the G7, 9% lower than Italy, 26% lower than Germany. Despite huge changes to the way we work we have only become 2% more productive since 2007. The Government has recognised that if the UK is to compete on a global scale this must change and recently published its industrial strategy aimed at doing just that.

While office and retail property may not seem central to oiling the cogs of the industry our move toward a services based economy means the role is bigger than you think. This has led to research undertaken by the BCO and Revo into the effects of our work environment on our productivity. More broadly this is linked to Health & Wellbeing agenda, or "Sustainability 2.0: This Time It's Personal".

The BCO recently published a paper which suggested that improvements to office environments could increase productivity by 2-3%, but that the VALUE of that increase could be a gain as much as 30% in central London and 75% elsewhere. Occupier organisations are likely to be taking a real interest in this which may alter their approach to fit out, or indeed space selection where they are served by central plant and equipment. In multi-let sites the occupier experience starts at the front door so MJM has a key role to play in ensuring occupiers arrive at their desks with a spring in their step and a smile on their face.

Expect more work on assessing and improving internal environmental quality, increasing biophilia, more concierge service offerings etc. We have been investigating this a little during 2017 with a trial of the Demand Logic system at one of the properties we manage for

Schroders, 55 Bishopsgate, which is aimed at improving internal environmental quality, reducing energy consumption, and utilising contractor time more efficiently. Case study to follow!

4) Re-Made in China?

For many years now the UK, among many other nations, has utilised China as a market for its recyclate with approximately 3m tonnes of cardboard and 350k tonnes of plastics being sent for re-processing each year.

However the Chinese have had enough of *"yang laji"* or "foreign garbage" and have imposed strict criteria on the quality of waste they are prepared to accept. Contamination limits have been set at just 0.5% from March 2018 and failure to meet this criteria may result in it being sent straight back.

Why is this an issue? Efforts will need to be made to ensure the 0.5% limit is not exceeded, or that new markets whether at home or abroad are found for the waste material. Either option will almost certainly lead to increased collection prices, and possibly declining recycling rates if incineration is seen as the most practicable option.

M J Mapp will continue to work closely with our waste services providers to ensure the best practicable environmental option is used for the management of waste produced at our clients' properties.

5) Carbon Reporting

The announcement in 2016 that the CRC scheme was being scrapped was met with little sadness from industry who found the scheme to be onerous above all else. In defence of the scheme it was very effective at making property owners take notice of the supplies they were responsible for and properly accounting for them, and brought the issue of carbon to the FD, once a year at least!

Many PropCos were able to reduce their exposure to the full extent of the scheme due to the various ownership structures employed to maximise the returns to their investors. On this basis the proposed move away from CRC to an increase to the Climate Change Levy applied to energy bills might have been a way of ensuring the founding principle of the Order that the Polluter Pays was realised.

However, the Government announced that the new scheme would be revenue neutral to the Exchequer. This means that, with more

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companies being captured through the uplift to the CCL, existing CRC participants will end up paying less than they were which was already too low to really push energy efficiency.

Further, the onerous aspect (the reporting) will be retained, and possibly extended, albeit with a view to aggregating the requirements of the various reporting regimes your clients may be subjected to. The Government is consulting now on the form the new requirements will take, a summary paper will be published by the team shortly but we are expecting the outcome to increase the reporting burden on our clients both in terms of what we need to report, on the extent of the reporting.

To discuss any of these, or other issues, please contact Carl Brooks. carl.brooks@mjmapp.com