Investment Drivers for Sustainable Property: Have we got the balance right? Questions from the UK

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Abstract

The last decade has seen a substantial shift in attitudes to sustainability. Not only has the issue of sustainable development gained more prominence within political debate at national and international level, leading to a raft of legislation and regulation, but it has also become a key part of the corporate agenda in developed economies.

Within the UK, a notable shift has also taken place from concerns limited to environmental protection to wider remit encapsulating well-being and triple bottom line sustainability. In tandem with this rise in corporate awareness has gradually emerged a realisation among members of the property investment community that sustainability is not merely a matter for the construction sector to address via construction techniques and choices of materials, it is of vital concern to those who are financial stakeholders in the whole building life cycle (Davis Langdon Consultancy, 2004; Pivo and McNamara, 2005). Importantly, some of this realisation has come about as the impact of existing and future legislation on the use and management of property is reported (King Sturge, 2004).

The threat of legislation has been observed to be a key driver in changing attitudes and developing interest in metrics which will enable investors to understand the financial worth implications of the sustainability agenda (Sayce and Ellison, 2004[b]). However, knowledge of financial measures, as obtained in a survey last year conducted by the authors, appears still to be weak (Sayce *et al,* 2005). Despite this apparent lack of knowledge among many of the investment community Sayce *et al.*

2005 found considerable support for government to incentivise the industry by use of fiscal measures which impact on property investors, traders and occupiers.

This paper takes as its premise that the last 10 years have seen progress but not yet a 'sea change' across the UK's property industry. Whilst the so-called 'circle of blame' (sustainable Construction Task Group, 2000; Sayce and Ellison, 2004[a]) has moved on, it argues that a 'virtuous circle' (Parnell, 2005) has not yet been created. The paper draws on research and industry consultation to reflect on the progress made in the UK to date in terms of developing the culture of sustainability in which investors, occupiers and developers are both informed and accepting of the principles.

In so doing, it argues that, for current progress to be sustained and accelerated there is a need for both continued industry response informed by easily applied metrics and a need for government intervention in the form of fiscal incentives. Finally the paper calls for greater pan-industry communication and a more open dialogue with government bodies to stimulate, via the fiscal system, measures to reward sustainable practices in property investment and management.

Keywords: Sustainability, sustainable property, financial incentives, property markets

1. INTRODUCTION

The last decade has seen a substantial shift in attitudes to sustainability[1]. Not only has the issue of sustainable development gained more prominence within political debate at UK national and international level, leading to a raft of legislation and regulation, it has also become a key part of the corporate agenda in developed economies. It is hard to realise that it is only a decade ago that the first environmental accounting was introduced;[2] today accounting across the triple bottom line is commonplace and enshrined within government policy and, increasingly, regulatory requirements. It has moved from being the concern of the minority evangelist to the mainstream of company strategy. But it has not just been in the corporate sector, that cognisance of sustainability has developed. Within the financial investment markets, the notion of socially responsible investment has been translated into a call for responsible property investing (RPI) (Pivo and McNamara, 2005).

Within the UK, this growth in policy awareness has been paralleled by a shift in the understanding of the breadth of sustainability with concerns for environmental protection now extending to a wider remit encapsulating well-being and triple bottom line sustainability. Although matters of environment still dominate, predicated on political and economic concerns particularly regarding the energy supply chain, there is a realisation within government that environmental protection must be balanced against the need to achieve progress against, for example, the Human Development Index[3] and as Pivo and McNamara argue, RPI must take as a goal that of "*maximising*

[1] Throughout this paper the triple bottom line approach to sustainability is taken, namely economic return; social justice and wellbeing and environmental protection
[2] Shell global produced its first environmental accounts in 1996
[3] The Human Development Reports issue global reports measuring progress against a range of metrics

the positive effects and minimizing the negative effects of property ownership, management and development on social and the natural environments in a way that is consistent with investor goals and fiduciary responsibilities" (Pivo and McNamara, 2005: 129)

Applying the tenets of socially responsible behaviour has proved difficult for the property community (Sayce and Ellison, 2004[a]; Sayce and Ellison, 2004[b]). To many the notion of sustainability was equated with a quest for green buildings and therefore a matter for the construction industry leading in turn to the proposition that a dis-connect between stakeholders in the built environment had led to little investment in green building stock predicated on a Circle of Blame[4] (Sustainable Construction Task Group, 2000).

Although there is increasing evidence that growth in awareness is beginning to break down this circle, the emphasis in research and legislation provides justification for the view that sustainability is regarded primarily as a matter for the construction sector to address. Hence research and development has focused on construction techniques and materials despite the fact that the matter is of vital concern to all those who are financial stakeholders in the whole building life cycle (Davis Langdon Consultancy, 2004; Pivo and McNamara, 2005).

Within the construction technology arena, developments have taken place which enable many environmental concerns to be appropriately addressed both through the design, construction and refurbishment phases of the building lifecycle[5]. Yet, despite the advances in technology, the take up has remained slow, predicated in part at least on the lack of a provable business case (Pett *et al.*, 2004).

The paper now considers, within the UK context, the chief drivers for the shift in awareness and assesses whether sufficient change has occurred that it can be argued that a 'tipping point' has been reached at which sustainable or responsible property investment will shift from being the concern of the minority to a mainstream activity so that incentification is not required; if it has not, what role is there for financial incentives to stimulate action?

2. DEFINITIONS OF SUSTAINABLE PROPERTY

Many definitions of sustainable property exist, but none is entirely satisfactory. Sustainable buildings may be equated to 'green buildings'. For example Kats (2003) regards them as synonymous and as buildings that "*use key resources like energy, water, materials and land more efficiently than buildings that are just built to code.*" This implies an environmental interpretation of sustainability; it also implies that legislation will not reach a point at which there is a requirement to specify a green building: implicit within Kats' definition is that sustainability is a moving goal with 'green' or sustainable being reserved for those that are built 'beyond compliance'

[4] The Circle of Blame identified four mains stakeholder groups: investors; occupiers; developers and constructors and argued that each group individually claimed to support the notion green buildings but each said they lacked the power to change the marketplace.

[5] The work of e.g. Building Research Establishment and other organisations has done much to make available to property developers and construction companies new sustainable materials and techniques which support 'green building' and sustainable refurbishments. Within the residential sectors some organisations (e.g. Berkeley Homes now have a policy to build to Eco homes excellent standard.

environmentally. However their performance in economic and social terms is not considered.

Within the UK, the Building Research Establishment's Environmental Assessment Scheme (BREEAM)[6] is used for scoring building performance, normally at the time of construction. In its earliest editions it was very much an environmental assessment but it has now been extended in scope to include a management and social dimension, though again economic efficiency is not addressed BREEAM currently assesses the performance of buildings in the areas of:

- Management: overall management policy, commissioning site management and procedural issues
- Energy use: operational energy and carbon dioxide (CO2) issues
- health and well-being: indoor and external issues affecting health and well-being
- pollution: air and water pollution issues
- transport: transport-related CO2 and location-related factors
- land use: greenfield and brownfield sites
- ecology: ecological value conservation and enhancement of the site
- materials: environmental implication of building materials, including life-cycle impacts
- water: consumption and water efficiency

The judgements used within BREEAM result in an overall assessment for the building.

Sayce *et al.* (2004) developed a set of criteria for evaluation of existing stock in order to inform redevelopment decisions taking into account the requirements of both internal (i.e. owners and occupiers) and external (i.e. the community) stakeholders. They developed the six "Ls" of:

- longevity (in order, for example, to reduce embodied energy);
- loose-fit (i.e. adaptability in working terms);
- low energy (or carbon low);
- locationally-appropriate (including accessibility);
- liked by occupiers (i.e. works well economically and functionally) and
- loveable (i.e. works aesthetically and in terms of occupier satisfaction).

Whilst these criteria are appealing in terms of simplicity and coverage, some are not capable of easily applied metrics. Subsequent work by Sayce and Ellison has refined the notion of sustainability for commercial property in terms of criteria which can be measured (Sayce and Ellison, 2004[b]. All but one of these can be parameterised, measured and incorporated explicitly within the appraisal process (see Table 1 below) thus allowing comparative analysis over time of existing stock.

Sustainability Criteria	**Medium for Quantification**	**Impact variable**
Energy efficiency	Energy cost Refurbishment timing	Rental growth Cash flow (or depreciation)
Adaptability	Occupier costs	Depreciation

[6] www.breeam.org

	Refurbishment timing	Cashflow (or depreciation)
Pollution	Environmental Insurance Premiums	Cashflow
Accessibility	Occupier costs	Rental growth
Occupier[7]	Duration to sale	Risk premium
Occupier Satisfaction	Occupier productivity	
Waste and water	Occupier costs	Depreciation
Building Quality	Refurbishment cost/frequency	Cashflow (or depreciation)
Contextual Fit		

Table 1: Linking Sustainability through to the appraisal variables (Sayce and Ellison, 2004[b])

These latter criterion-based interpretations of sustainability differ from Kats in two important ways: they are focused on existing stock and they do not have an inference that sustainable buildings will always be beyond a 'normal' categorisation. They imply an ambition that sustainability should be a normal achievement – not an exception. They also attempt to be based on metrics that are applicable across the building life-cycle.

3. DRIVERS FOR SUSTAINABLE PROPERTY INVESTMENT

There are a number of identifiable drivers for sustainable property investment which have been influential in both raising awareness and leading change. They are a mixture of both imposed (top down) and market (bottom up) factors.

3.1 Top down: Legislation and regulation

Legislation affecting property is complex and ranges from supra-national policy initiatives to detailed and specific regulation. **Figure 1** illustrates the extent to which policy debate and regulation has developed over the last two decades. The volume of regulatory and other output has clearly accelerated and shows little sign of slowing down (see also King Sturge, 2004). Much of it affects real estate directly in construction terms and less directly in respect of its subsequent management and treatment as a tradable commodity.

[7] The nature of the occupier was regarded as a sustainability criteria in this paper as a result of research particiaptnpants' view. Where the occupier is considered to present a high risk in social responsibility and/or environmental risk terms and consequently is at risk of adverse shareholder or activist action, it will increasingly be recognised as an occupier that will deter potential investor purchasers.

1990	Environmental Protection Act
1992	UN Rio de Janiero Earth Summit
1995	Environment Act
	Disability discrimination Act
1997	UN Kyoto Earth Summit
1999	UK Sustainability Strategy – A better Quality of Life
2000	Contaminated Land Registration Act
	Pensions Act
	Climate Change Levy
2001	EU Green Paper promoting CSR
	EU directive on the Energy Performance of Buildings
2002	UN Johannesburg Earth Summit
	EU 6th Environmental Action Programme
	Landfill Tax escalator introduced
	Building Regulations Part L (energy) updated
2004	Planning and Compulsory purchase Act (adopts many Agenda 21 Principles)
	EU Directive on co-disposal of hazardous waste
	Planning policy statement – creating sustainable communities
	Sustainable and Secure buildings Act
	Skills for Sustainable Communities – The Egan Review
	Building Regs updated again for increased energy efficiency
2005	Gleneagles summit
	UN Environment Programme – launch of responsible investment principles
	Launch of One Future Different Paths and Securing the Future (UK Government Sustainable Development Strategies
	EU Waste Electrical and Electronic Equipment Directive
	Operating and Financial Review
2006	EU Green Paper; UK Energy Review Report
2007	EU Directive on Environmental Liability
	EU Directive on Taxation of Energy Products and Electricity
2009	Implementation of energy performance certificates

Figure 1 Source: DJ Sustainability 2005 / Forum for the Future, 2005

These legislative and regulatory requirements have affected all major stakeholder groups, but particularly the development and construction company sectors. For these companies the chief legislative drivers have been in the field of energy efficiency. Vehicles for change include changes to Building Regulations, through the impending energy performance certificates (Commission of the European Communities, 2001) and in the matter of planning consents following the introduction of the 2004 Planning and Compulsory Purchase Act and its associated Planning Policy Statements. The latter make sustainability the cornerstone of government's development principles. The changes introduced by the 2004 legislation are particularly significant and the requirement for both environmental impact assessment has been strengthened, whilst PPS[8] 22 sets out an ambition for carbon reduction targets far beyond those contained in the Kyoto protocol, although whether this is being implemented is in doubt[9].

[8] Planning Policy Statement 22

[9] PPS 22 contains, *inter alia*, a requirement for plans to consider the obligation for developments to have some on-site renewable energy provision. A review undertaken in June 2006 indicates that almost half of the plans that could have been expected to contain provisions for the requirement for on-site renewable energy production do not contain such a provision.

However, despite legislation to improve efficiency, carbon emissions are rising. Energy efficiency may have improved but consumption such that the savings made are off-set but increased consumption.; the so-called Khazzooom-Brookes postulate (House of Lords, 2005, p:28). As technology develops, so does the ability to consume in new ways.

Whilst the legislation and regulation affecting the planning and development phases have an obvious impact, this is felt only at the point of construction or major refurbishment. However building replacement is a very slow process. It is estimated that some 98% of the existing stock will remain year on year. Therefore to address sustainability only at the point of redevelopment or major refurbishment is futile. Measures are needed that address the issues through the management and continued utilisation of existing buildings. (Sayce *et al.*,2004; Pivo and McNamara, 2005). Yet it is in the area of existing buildings that the government has consistently failed to act significantly directly.

Some legislation is less direct in its implications for sustainability but may be powerful in relation to existing stock. For the investment community, the amendments in 2000 to the 1995 Pensions Act focused attention squarely on sustainability through the lens of ethical investment. Although the requirement was light touch the impact has been significant and it was one of the drivers behind research work carried out by the Kingston Team and supported by industry[10] (Kingston University, 2006). Social legislation, such as the Disability Discrimination Act, has placed obligations on building occupiers whilst other measures such as the landfill tax create a clear imperative for business occupiers to reduce waste. Additionally regulations such as the EU waste Electrical and Electronic Equipment Directive (Commission of the European Communities, 2002) place pressures on building occupiers, notably retailers, to adopt efficient waste management measures; this in turn can reflect back on, for example, location policy and potential re-distribute demand and values. More robust environmental legislation has increased the possibility of property investors being liable for clean up following pollution incidents and local transport policies combined with rising fuel prices are making commuting by car more difficult and expensive.

All these drivers impact on the occupier's and investor's interaction with their property. Some affect the property investor's own business costs, and many are already putting CR policies in place to try to address this. Business in the Community (www.bitc.org,uk) .reported in June 2006 (CITC, 2006) that for the approximately 150 companies who take part in their annual benchmarking exercise, supply chain management, climate change and water consumption are now all matters on the boardroom agenda, but they are not specific as to how this relates to property strategy.

3.2 Bottom up: market led drivers

Three major market-led drivers have been identified, which potentially impact across the stakeholder groups.

[10] The Sustainable Property Appraisal Project directed by Sayce and Ellison issued its final report to the Department of Trade and Industry in March 2006

3.2.1 Future legislation and the need to mitigate downside risk

The need for economic sustainability and, in the case of public companies or financial institutions, the requirement to meet the needs of shareholder or fiduciary responsibilities will always dominate behaviour. Whilst direct legislation does have an affect on market behaviour, it is often the future prospect of legislation that can be a powerful driver. For example, although within the UK, the requirements for pension funds to disclose policies towards social and ethical behaviour is not a requirement to adopt such behaviour, it has proved to be a powerful driver (Sayce and Ellison, 2004[b]; King Sturge, 2004). The prospect of future and more onerous legislation on building design has led some developers and property investors to adopt a 'beyond compliance' culture[11] either to achieve higher returns or to reduce downside risk. Such a risk reduction attitude was identified as important by Pett *et al.* (2004) as they sought to make a case for low energy offices, supporting the earlier work of the Sustainable Construction Task Group (2000).

3.2.2 Changing lease patterns

Another important driver towards more sustainable buildings in the UK has been change in landlord and tenant relationships. The standard commercial lease has long been structured to reduce risk for the landlord. Two particular provisions, combined with lease length, have been important. First, there is normally placed on tenants a liability for all repairs (including structural repairs and any upgrades required by law); this protects the landlord until lease end from any deficiency in the building; second a regular upward only rent review clause ensures that landlords are protected against falls in the real value of the building. It is only at lease end that depreciation and failure of the building to meet current occupier needs and legislative standards are realised by the building owner. Thus whilst long leases of typically 20 to 25 years dominated market practice, the incentive for landlords to invest in sustainability upgrades did not exist; whilst tenants, not having a long-term interest in capital investment, were similarly not incentivised. The last decade has witnessed a significant shift in market behaviour with average lease lengths having fallen from 15.8 to 9.2 years (BPF/ IPD, 2005).

The result is that there is a greater onus on landlords to inter-face with their tenants more actively to maximise occupier satisfaction and retention and hence minimise building value depreciation. As tenants become more informed, so they will change their demands towards space that meets their revised corporate objectives, including those of sustainability. Properties that do not meet sustainability criteria will increasingly be subject to increased rates of obsolescence and value depreciation (St. Lawrence, 2004; Sayce and Ellison, 2005). Research carried out by the authors last year (see Section 5 below) points to rents not yet been significantly affected, but with increased publicity of the issues and guidance now available (see for example

[11] This statement can only be supported by anecdotal evidence and through discussions with participants, but it is clear that the prospect of competitive early mover advantage is a driver for some organisations. .

Carbon Trust, 2005) the blocks are beginning to be in place to trigger a shifting market position.

3.2.3 Potential enhanced returns: occupiers and investors

The case for investing in sustainable property must rest on its potential to be either:

- cheaper or cost neutral, or
- provide an increase in value (as measured by appraisal techniques) sufficient to offset any addition costs.

The case for the investor who is purchasing standing stock must come through the prospect of better capital or/and rental growth and less vulnerability to depreciation and obsolescence.

For the occupier the business case turns on:

- Greater operational efficiency and cost control; and
- Corporate strategy for building selection.

In terms of the former, much research has been devoted to exploring a case based on reduced cost, frequently focused on energy efficiency. One of the barriers to investment in low carbon buildings has been the low cost of energy in the hands of the occupier. As long as energy costs are a very small fraction of rental value, they are not likely to be a crucial part of stock selection. .However, despite energy costs having risen significantly in recent years new research by Cyril Sweetts[12] again points to the difficulty of creating a business case based on cost reduction, even if a whole life approach is adopted. Their work and that of the Building Research Establishment (BRE) does point to an ever decreasing premium in the costs of procuring energy efficient building with estimates now as low as 3%. – 7%.

The findings from GVAGrimley's survey (reported in Morley, 2005) indicates that some occupiers would be willing to pay slightly more (2% or less) for sustainable stock, but the conclusion of this survey was that cost control was a more compelling reason to seek such stock and energy efficiency was the individual most compelling argument (**see Figure 2** overleaf).

[12] work not yet published. Kingston University were partners in the project.

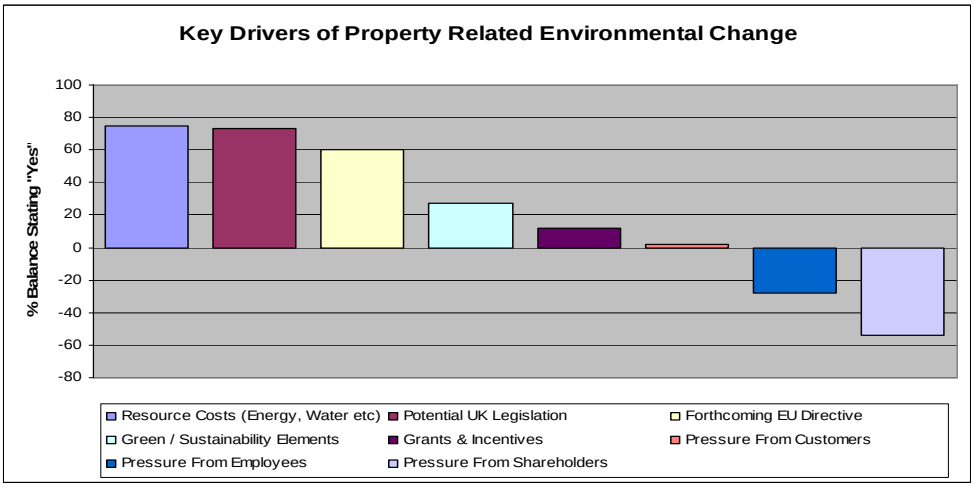

Figure 2:

Key Drivers for Property-Related Environmental change Source: Morley (2005)

These findings can be compared with those of the authors who in 2005 carried out conducted a survey, the third in a 10 year series undertaken jointly by Drivers Jonas and Kingston University, into attitudes towards sustainable property.[13] For each of the three studies a postal questionnaire was distributed to a cross-section of property investors, developers, consultants and bankers. The questionnaire was organised into two sections. The first focused on indirect financial incentives for sustainability through the impact sustainability factors might be expected to have on rental values, yields, the appraisal process and investment strategy. The initial findings, reported last year, (Sayce *et al.* 2005) revealed that awareness of sustainability has grown over the last 10 years and its potential impact on property investment strategic decision-making is now more widely recognised (**Figure 3** below).

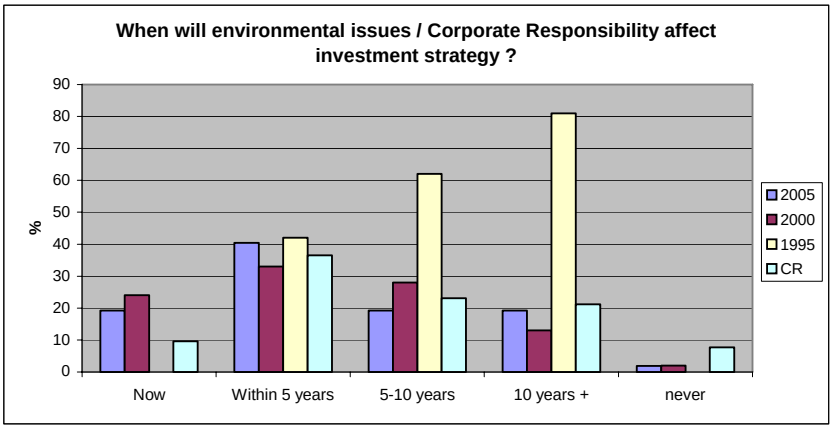

Figure 3: Source Sayce *et al.* (2005)

The research also demonstrated that respondents, whilst they recognised the growing strategic importance of sustainability factors, considered that sustainability is having had little impact on the property investment sector in terms of rents and yields (see **Figures 4 and 5**). Over 70% of respondents saw the effects not affecting the market for another 5 years. However, more detailed analysis revealed that among the

[13] The surveys in 1995 and 2000 referred to green buildings. For the 2005 survey the emphasis was changed to sustainable buildings in recognition of market changes.

investor respondents there was unanimity of view that environmental factors would affect investment yields within this time frame.

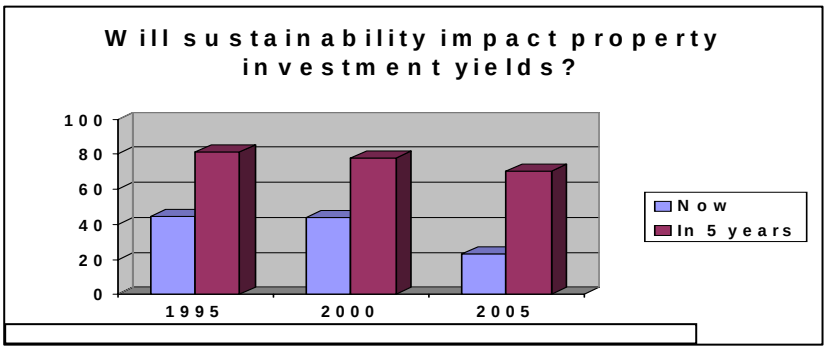

Figure 4: Source Sayce *et al.* (2005)

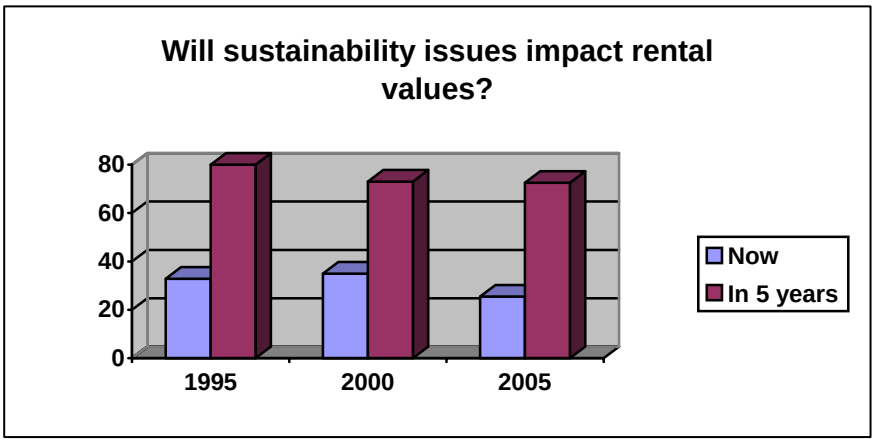

Figure 5: Source Sayce *et al.* (2005)

When conducting the survey it had been anticipated that the results would show a significant change from those reported five years earlier, due to the much greater awareness that was by then evident among the property community. This proved not to be the case. Compared to earlier surveys carried out in 1995 and 2000, the greater awareness had little or no translation to market reactions, leading to the suggestion that, for this respondent group at least, the tipping point in terms of sustainability being a transactional issue has not yet been reached.

3.2.4 The investment case for sustainable buildings

The findings of the authors' survey point to respondents failing to recognise a current case for investment in sustainable property. Investing in improvements to the stock to raise sustainability standards is entirely rational only if such investment reduces exposure to the risk of falling occupier demand and compromised investment returns. To make this decision requires a means of quantifying that assessment in terms of property worth; only if this is possible can the investor understand the financial implications of taking action and the risk attached to taking no action. The work of

the Sustainable Property Appraisal Project (Kingston University 2006) developed a methodology of linking sustainability criteria to an appraisal using a Future-Proofing Property Questionnaire (FPPQ). This methodology has so far been used on approximately 100 properties[14] and the overall results point a variance between the market figure and the sustainability appraisal of up to around 2% suggesting that appraisers are not yet building sustainability into their appraisal calculations. And if they are not, the business case for investors continue to lack transparency.

4. A TURNING TIDE?

The analysis of research outlined above points less to a 'sea change' than to a slowing rising tide of changed behaviour. Change has undoubtedly taken place and the shoots of Green Value found in Canada and elsewhere (Davies, 2004) resonate in the UK. However, this does not mean that a market-led sustainable property market has evolved. From the analysis it can be inferred that it is no longer a lack of awareness that requires address; it is the translation of awareness into action that can be supported as being rational in economic terms that is the next requirement. The question to be resolved is whether or not market agencies will now start to systematically accumulate, analyse and disseminate the evidence which supports corporate strategic objectives relating to social responsibility and responsible property investment view. If they do not intervention will be required, through further fiscal or/ and legislative measures.

Rational behaviour is linked to requirements for optimisation of return combined with risk containment. Currently, the downside risks may have started to produce behavioural shift at the corporate level but the benefits of return, when weighed against the costs, actual or imagined (see Pivo and McNamara, 2005) have not overcome the inertia for the mainstream of each stakeholder group. For investors, the key consideration lies in future performance; for this the comfort and support of performance measurement is required. These are not currently available although the methodology developed through the Sustainable Property Appraisal Project (SPAP) is currently being developed and applied to a limited number of properties.[15] This in turn may provide evidence to populate an index and, as suggested by Cullen (2005), the application of this methodology could lead in the not too far distant future to an IPD4Good Index.

5. INCENTIVISING THE MARKET

A performance index, such as suggested above, would be extremely influential for large-scale investors who own and fund large commercial property schemes. However, it is only one part of the package to change behaviour and its impact on small scale property portfolios is less obvious. It is suggested that a wider and more immediate impact on the market would or could be achieved through fiscal measures. These have advantages over, for example, planning and building regulatory action as they would in many cases apply to existing as well as new stock.

Accordingly, the second part of the authors' survey last year tested views on possible fiscal incentives to promote sustainable property development and management. As

[14] The project team were sponsored by DTI, PruPim, Boots, USS Pension Fund, IPF and Drivers Jonas.

[15] The Kingston Team continue to work with sponsors and they are currently developing a database of appraisals to provide the investors involved with knowledge of how sustainability could be built into their appraisals.

with the first part of the questionnaire the intention was to begin to build up a longitudinal picture of opinions.

The findings from this part of the investigation reveal that most respondents are very supportive of government intervention by means of incentives. In 2000 the respondents to the survey identified the UK Government as the most appropriate body to take the lead in funding financial incentives for sustainable buildings, followed by the EU. This result was repeated this time. The UK Government is still seen as the most appropriate institution for leading such an initiative and providing financial support. Private enterprise is seen as the least appropriate, but this is hardly a surprise.

Updating the questionnaire enabled the research to investigate awareness of issues such as Energy Performance in Buildings Directive and other sustainability tools such as the FTSE4 Good and BREEAM. The questionnaire asked for respondents opinions as to the impact on the market of:

- Changes to Part L[16],
- FTSE4 Good,
- BREEAM and
- The requirement for pension funds to disclose ethical investment policies on investment appraisals.

The results (see Table 2 below) demonstrate a considerable lack of certainty over these issues, in particular in relation to tools such as the FTSE4Good. However they did reveal that respondents considered they would have some significance. The incentives perceived by these respondents to have most impact on investment appraisals are pension fund disclosure and BREEAM. Only 10% and 15% respectively considered the impact significant, but over half the respondents felt these tools had at least some impact. Interestingly, both can be characterised as being non-regulatory.

Incentive	Very significant	Significant	Not Significant	Not at all	DK
FTSE 4 Good	0%	8%	19%	33%	40%
Pension fund disclosure	0%	10%	44%	25%	19%
Part L	4%	15%	23%	17%	32%
BREEAM	0%	15%	48%	35%	13%

Table 2: Existing incentives Source: Sayce *et al*. (2005)

The research also sought respondents' views on the potential effectiveness of a range of possible financial incentives for more sustainable buildings. Overall support for financial incentives as a means of achieve greater sustainability within the property stock was strong when the research was first conducted in 1995, and this remains the case. In 2000, 90% of respondents were in favour of some form of financial incentive and this has changed little at 85% in this round. The four financial incentives investigated were:

- A discount on non-domestic rates for sustainable buildings

[16] Part L of the Building Regulations is the section that controls the requirements for energy efficiency. It sets standards that must be achieved by new buildings or on refurbishment

- Widening the scope of capital allowance on energy efficiency plant and machinery
- A lower rate of VAT on refurbishment and sustainable building materials
- Stamp duty land tax exemption for sustainable property

Incentive	% in favour	% considering it easy to implement	% regarding it as affecting capital values	% regarding it as affecting rental values
Discount on non-domestic rates	61%	33%	71%	60%
Capital Allowances	69%	65%	10%	25%
Lower rate of VAT	69%	56%	40%	23%
Stamp Duty Exemption	73%	52%	92%	50%

Table 3: Views on possible incentives Source: Sayce *et al*. (2005)

The feedback in terms of preferences shows all four incentives as potentially well received by the market. When the research was carried out in 2000 the most popular incentive was the rates discount, but it was seen as the most difficult to implement then, as it was this time.

When looked at in terms of ease of implementation and potential impact on rental and capital values, stamp duty exemption achieved the most positive response. Capital allowances were clearly seen as the easiest to implement and were popular, but their impact on capital and rental values was considered to be less. This incentive could be more effective at encouraging change within the construction sector rather than the investment sector.

The conduct of the research coincided with the report of the House of Lords on Energy Efficiency (House of Lords). This report contained, *inter alia*, consideration of a series of possible incentive and penalty measures such as:

- stamp duty and or council (revenue) tax reductions;
- the imposition of carbon taxes (other than Climate Change Levy) ;
- enhanced capital allowances;
- differential tariffs to discourage increased use; and
- domestic tradable quotas as proposed by Hillman (2004).

Of these, they dismissed tradable quotas as unworkable and their view was that, with regard to stamp duty and council tax rebates "*great care would be required to ensure that rebates were equitable and effective*" (House of Lords, 2005: 42). The subsequent government energy review (DTI, 2006) has indicated a willingness to consider enhanced capital allowances and a development of the Climate Change Levy but no consideration of differential pricing, VAT reductions on sustainable materials or a council tax/ stamp duty reduction have been included. Since then, a further report (Blackwell and Gough, 2006) has provided another call to Government to consider the use of business rates as an incentive for green buildings.

Given the findings from the authors' research, Government's decision to focus almost exclusively on measures which only address new build, such as enhanced capital allowances, is seen as disappointing and a continuing failure to tackle the major concerns of both upgrading existing stock and better building management.

6. CONCLUSIONS

The review of current positioning of sustainable or responsible property investment in the UK points to significant progress over the last five years. The vicious circle has been broken, at least in part, though progress towards a virtuous wheel as envisaged by Parnell (2005) remains tenuous and focused on a small number of investors and developers. Empirical evidence points to greater awareness but only a slight market movement.
Significantly, the transactional market still does not explicitly recognise the impact of sustainability factors within its pricing structure. Some property consultants are beginning to develop skills in this area, in response to demands from some of the major corporates, but the gap in terms of assessing the wider impact of sustainability on commercial property investment returns and performance has yet to be resolved. The take up from the SPAP project has been encouraging and is beginning to form the foundations for an index, but this is far from becoming a reality.

Survey evidence of stakeholder groups also points to triple bottom line sustainability being increasingly important in the future; what it does not do is support the presence of a current convincing business case. Based on single bottom line criteria the rationale can only be made on a risk reduction, rather than return enhancement case, at least at the point of procurement. If an index of performance of existing buildings correlating financial return and sustainability criteria is realised, then a market transformation will take place. But this is for the future.

Therefore, the question remains of a fiscal incentives market for creating market transformation. The rate of progress towards the mainstreaming of sustainability may have been rapid for the corporate sector within their strategic positioning and reporting but the implication of such policies to their property decision-making has proved more elusive. There is clear evidence that fiscal incentives would be welcomed by many and, although challenges to implementation undoubtedly exist, they are, in the authors' view, worthy of further research and investigation. Whilst these have been put onto the agenda by UK government notably in relation to energy efficiency, the proposals do not represent a package of measures that are likely to stimulate radical changes in behaviour. It may be that such changes will not be needed; that a business- as-usual (or almost as usual) approach will suffice to enable sustainable properties to become the norm. But this might be a risky proposition. If we do not wish to run this risk, greater pan-industry communication and a more open dialogue with government bodies to stimulate, via the fiscal system, measures to reward sustainable practices in property investment and management are urgently required.

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