Net zero in real estate

2025

Net Zero in Real Estate: What to expect in 2025

Introduction

Global temperatures are now reaching the threshold set by the Paris Agreement. 2024 was the first full year registering average temperatures greater than 1.5°C above pre-industrial levels.[1] This is causing extreme weather, from heatwaves to flash flooding to stronger storms, impacting billions across the globe. In the early weeks of 2025, the unprecedented scale of the fires in LA served as a solemn reminder that the risk to life and property from extreme weather events is very real indeed. Meanwhile, carbon emissions from fossil fuels have reached a record high.[2] As we head into 2025 and a new quarter of a century, climate action is more urgent than ever.

The commercial real estate sector enters 2025 with cautious optimism, a welcome change following the repressed mood of the last few years. However, there is still considerable geopolitical and economic uncertainty. The interest in ESG investment across all asset classes, including real estate, is holding strong and widely anticipated to grow in 2025.[3]

Against this backdrop, Verco's recent survey canvassed the views of key decision makers in real estate, primarily with property interests across the UK and Europe. The findings give insight into what to expect for the net zero agenda in 2025.

Key takeaways

Susie Dobson
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Experts from the Verco team analysed the results of the survey and identified the key takeaways.

1. Climate mitigation

Climate mitigation has remained top of the agenda with a renewed focus on data, while both climate adaptation and resilience have also become key priorities for the year ahead.

2. Operational carbon

Reducing operational carbon emissions remains the number one priority for 2025, with organisations beginning to pivot from planning interventions towards delivery and implementation.

3. Embodied carbon

We are also seeing more and more importance being placed on embodied carbon, both of new-builds and of net zero carbon interventions themselves.

4. Cumulative carbon

As organisations seek to balance these embodied and operational emissions over the lifecycle of individual buildings, it will be increasingly crucial to understand the cumulative carbon picture.

5. Regulations and incentives

There remain strong calls for governments to bring in regulations and incentives to motivate wider progress towards net zero and for the carbon credentials of buildings to be more clearly reflected in their value.

6. Net zero optimism

Despite this felt lack of external support, these organisations are still leading the way, and many feel optimistic about their ability to reach net zero targets and align with the Paris Agreement 1.5°C scenario.

Where is the Real Estate sector on its journey towards net zero?

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Climate action and the broader sustainability agenda remain key concerns for the Real Estate sector. Trump's re-election signals a de-prioritisation of net zero in the US, with a second withdrawal from the Paris Agreement looking likely. By contrast, a tightening of regulation is expected in the UK and Europe as the first companies begin reporting to the EU Corporate Sustainability Reporting Directive (CSRD) and the Future Homes Standard becomes mandatory in the UK.

For commercial real estate, CRREM continues to set the standards for future operational performance. GRESB is becoming increasingly sophisticated.

The pilot phase of the UK's Net Zero Carbon Buildings Standard will get underway, with the aim of introducing a clearer standard for new and existing buildings to be net zero certified. Meanwhile, across all geographies, the rapid development of automation and artificial intelligence herald new opportunities for monitoring and understanding data on building performance.

Cautious optimism

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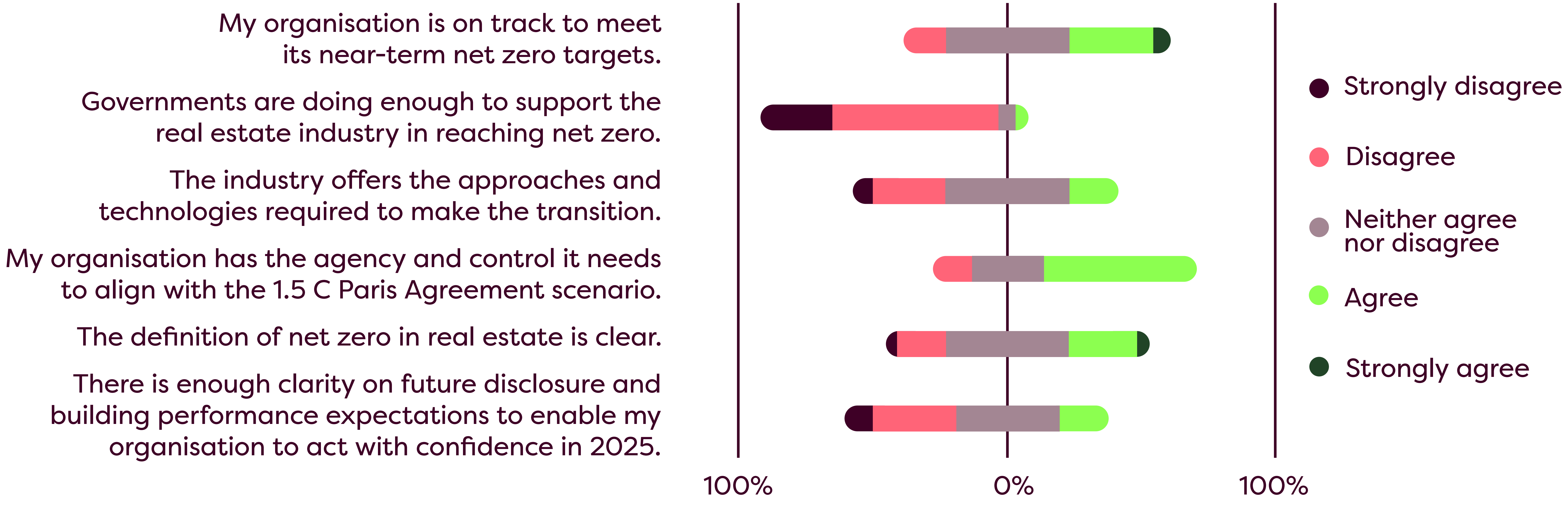


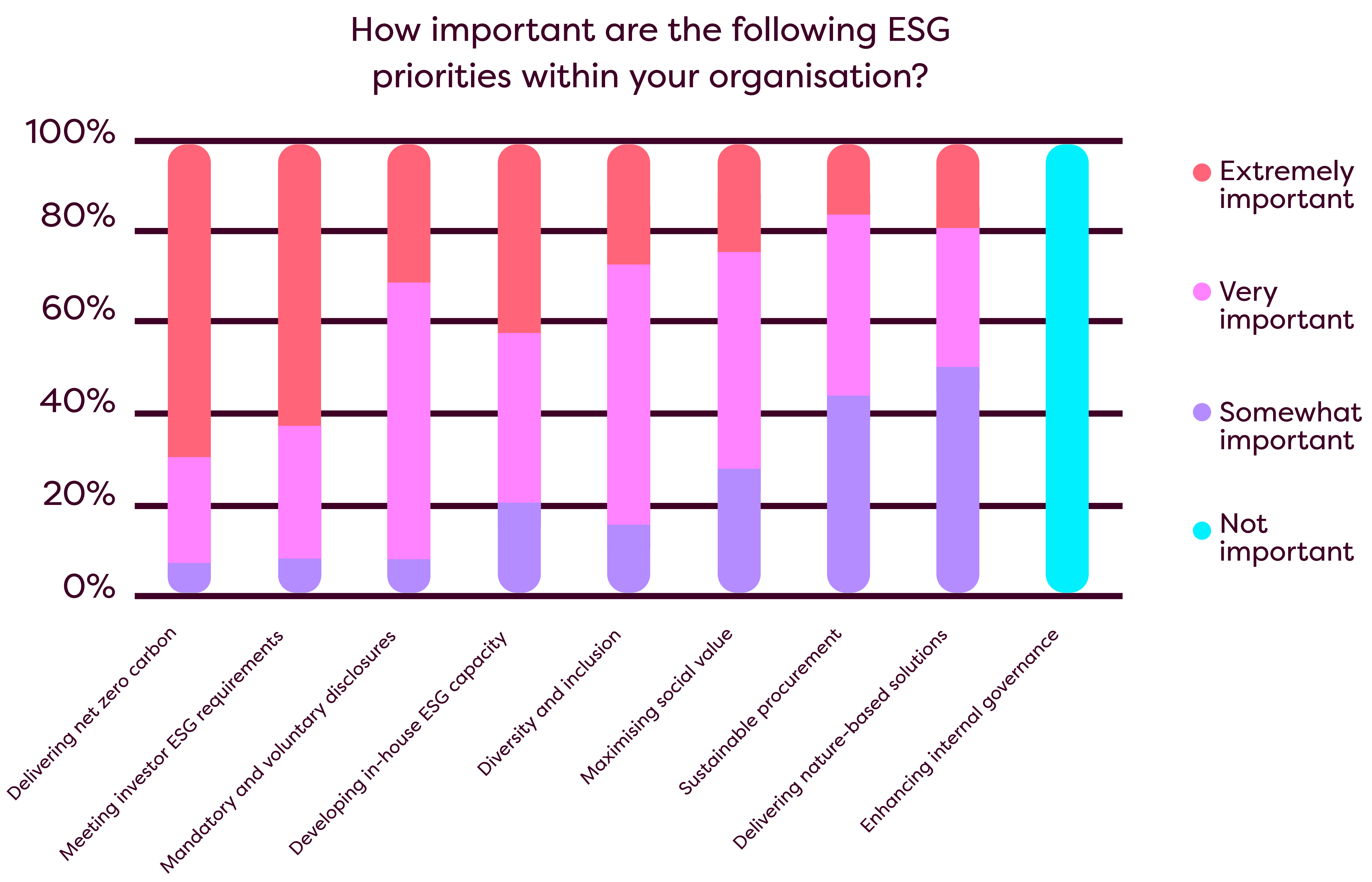
Although technologies, regulations, and frameworks are advancing in the sector, our survey respondents were clear that more needs to be done to make net zero in real estate feasible at scale.

75% of respondents feel that governments are not doing enough to help the wider industry reach net zero. Despite this, they are more optimistic about their organisations' own agency and progress towards net zero.

Insight from the Verco experts:

- Leading market actors are hoping for greater regulation from governments. This includes incentives for net zero action, rewards for acting early and penalties for passivity.
- There is a strong desire to see the value of net zero reflected in the market through 'green premiums' for energy-efficient, low-carbon buildings and 'brown discounts' for the high emitters.
- We are working across the real estate sector to quantify and mitigate asset and portfolio transition risks through insight, process and performance improvements; reducing energy costs, supporting asset values and liquidity, and increasing market appeal.

Operational carbon remains a core focus



Survey results

Susie Dobson
Consultant

We asked our respondents what their top priorities are for 2025 within ESG. Climate mitigation is still at the top of the agenda. Delivering net zero carbon jumped to the number one spot on the priority list, with 92% of respondents rating it as 'extremely important' or 'very important'.

However, though mitigation remains crucial, many of our respondents also say that climate adaptation is a key concern.

For individual organisations, progress towards net zero will continue to be either enabled or hampered by economic conditions. For the second year running, our survey showed that the biggest challenge to action is budget constraints. Despite this, buy-in from investors and shareholders is high. 85% of respondents said that meeting investor ESG requirements is 'extremely important' or 'very important'.

Climate action continues to top the ESG priority list

Within the net zero agenda, operational carbon emissions remain top priority. Our respondents ranked this as the highest priority for the third year running.

This is encouraging for the wider climate change agenda; 80% of the 2050 building stock is already standing, so operational emissions are a crucial part of the sector's journey towards net zero.[4]

As we head into 2025, those at the market's leading edge are pivoting from strategy-setting, net zero pathway modelling, and audit programmes. They are turning towards the implementation of identified measures to reduce energy and carbon.

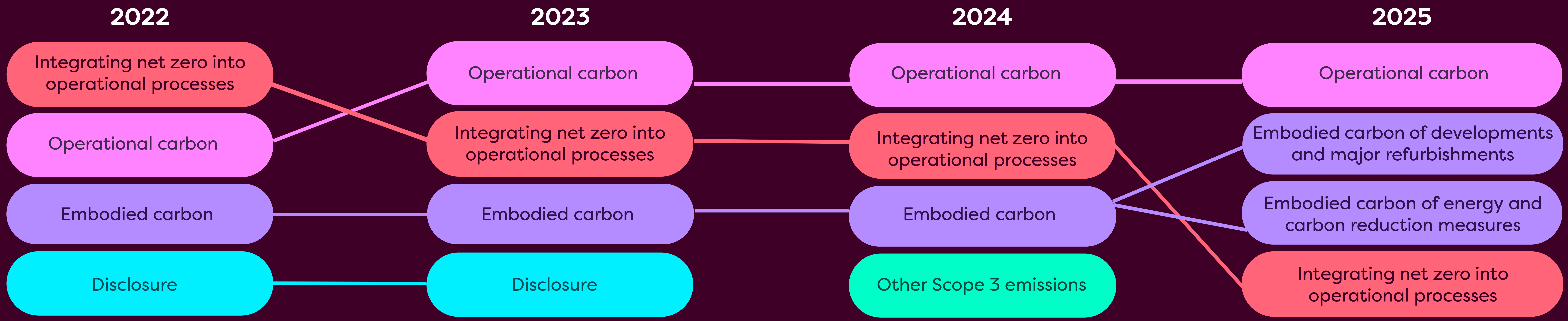
At the fund level and the asset level, these organisations know what they need to do. We are supporting them as they turn opportunities into commercial and concrete actions.

Insight from the Verco experts

We expect to see the focus on climate adaptation and resilience continue to grow as extreme weather events impact real estate assets and lives.

Investors are becoming increasingly interested in the details of their investees' sustainability commitments and progress. This is a trend we expect to continue into 2025.

Focus is shifting to embodied carbon



Increasing focus is being placed on embodied carbon (EC), which rose to second position overall among the survey responses. 15% placed the embodied carbon of developments and refurbishments as their top priority for 2025.

A significant proportion of a building's whole life cycle emissions are generated during the construction phase. As a result, the design and procurement stages present vital opportunities to generate EC savings and influence long-term operational efficiency. Though focus on this area is growing, many investment managers lack granular data on materials used. Involved stakeholder engagement is also required to embed EC within decision-making throughout the process, from design to practical completion.

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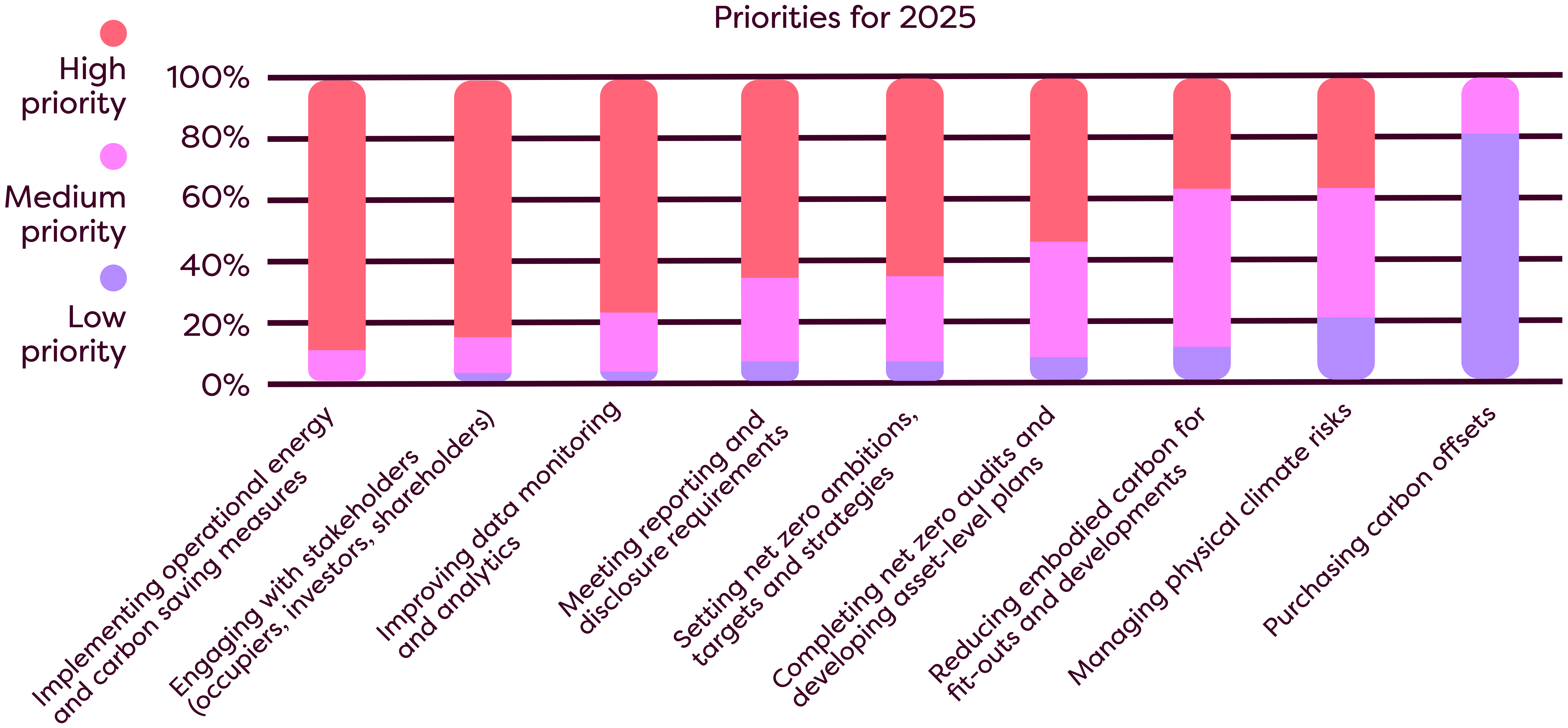
Considering cumulative carbon

As real estate organisations turn towards implementing operational energy and carbon reduction measures, they are also recognising the embodied carbon of the materials required to fit solar panels, batteries, insulation, services upgrades and façade replacements in their operational assets. Reflecting this, 23% of our respondents gave the top spot to the embodied carbon of energy and carbon reduction measures. However, the operational carbon benefits usually outweigh these upfront costs over the lifetime of an asset. The sooner you can afford to implement these measures, the sooner you can start saving energy and lower the building's whole-life carbon.

Insight from the Verco experts

Well-timed interventions can result in operational savings. These can offset the upfront embodied carbon, resulting in much lower cumulative emissions in the long run. We have developed cumulative carbon modelling tools and believe they will increasingly shape strategic portfolio and transaction decisions in the coming years.

Priority activities for 2025



There is an increasing focus on delivery in the sector. However, many respondents still want to work on setting or refining strategies. Many also want to improve their understanding of assets through data monitoring, analytics and net zero carbon audits.

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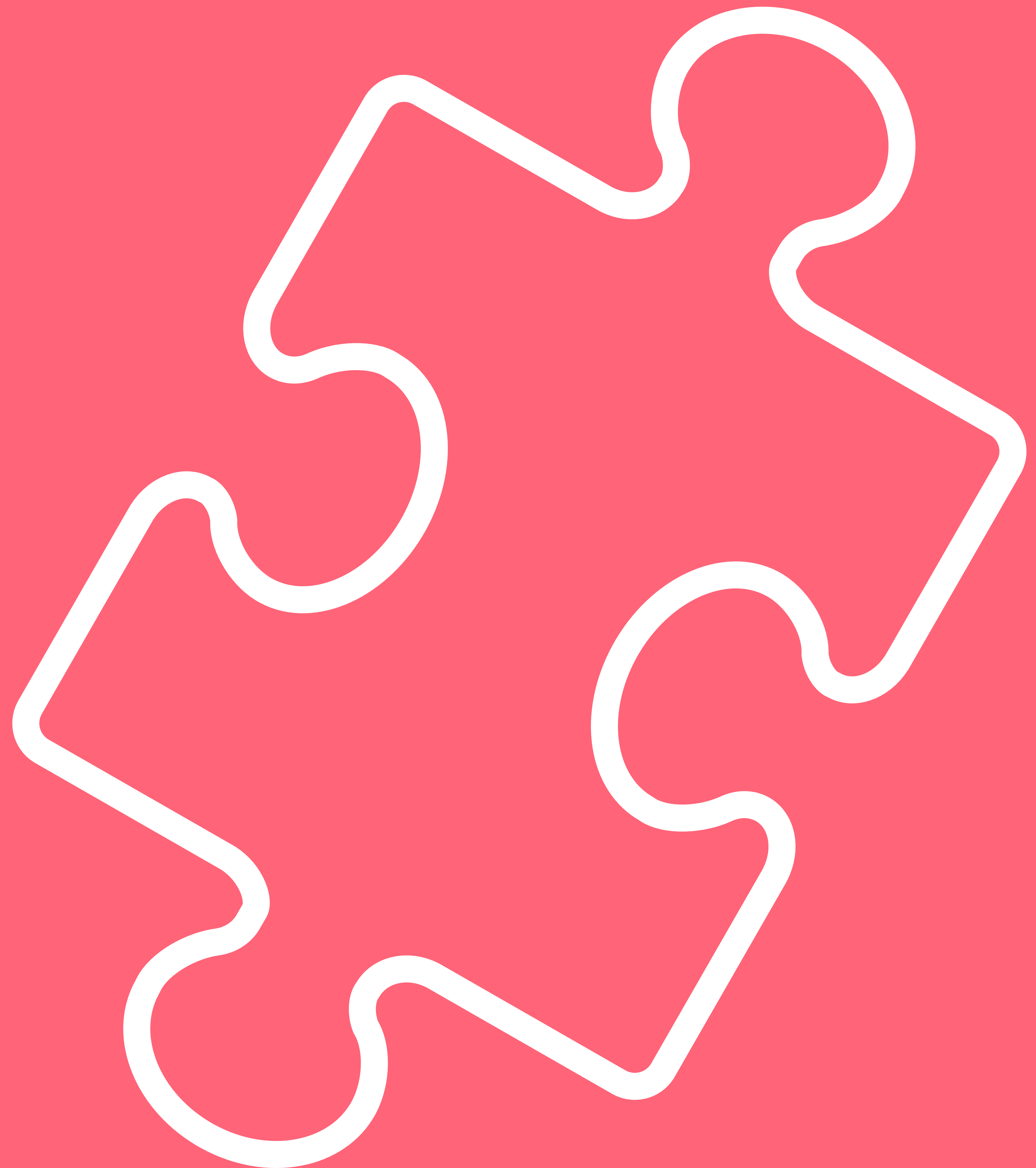
Ben Ross
Head of Aim for Zero

Insight from the Verco experts

In net zero as in life, knowledge is power. Accurate and granular understanding of asset-level performance and building fabric is the key to unlocking wise asset-level planning and effective interventions.

While enhanced data monitoring smooths the process of meeting reporting requirements, there remain significant challenges with confidence around data quality. Data has again appeared high on the list of priority activities for our respondents this year. We are supporting clients with collection, verification and assurance.

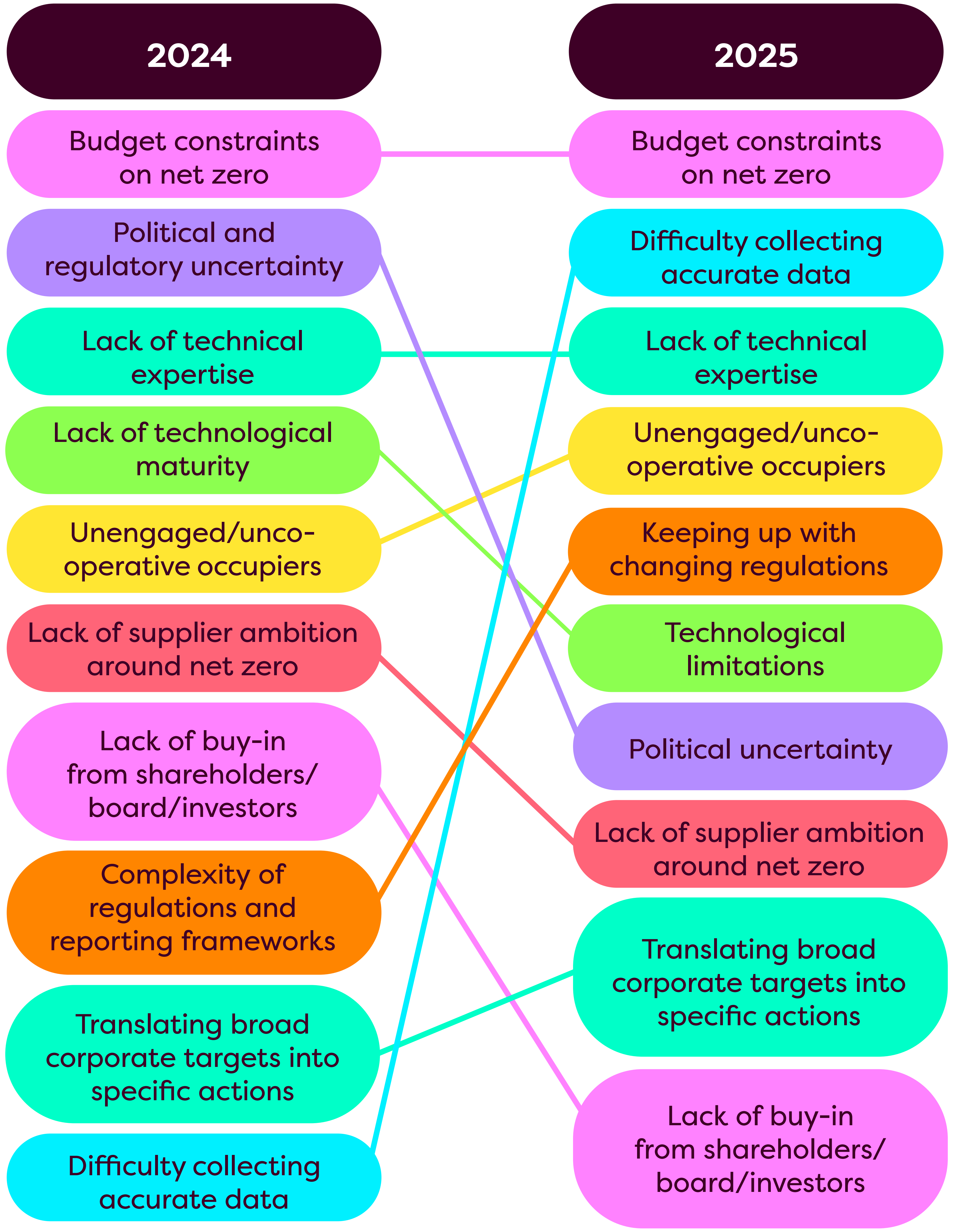
How we can help with stakeholder engagement



85% of our survey respondents rated stakeholder engagement as a high priority activity for 2025. With so many interests at play, stakeholder engagement is one of the key challenges for achieving net zero. This is particularly true for landlords with FRI leases; when occupiers have full control of their own energy use, it's very difficult to reach whole building energy and carbon goals without their collaboration. Here's how Verco can help with occupier engagement:

The first step to effective occupier engagement is to measure occupiers' energy consumption. Following this, site visits and opportunity reports usually identify numerous low- to no-cost measures that can immediately improve energy efficiency. The next step is to encourage occupiers to adopt longer term measures to reduce energy and carbon in each building. Verco can support occupiers with developing a business case for each reduction measure, which can then be taken forward for board sign-off and implementation.

Verco offers full support throughout this process to facilitate relationships of confidence and trust between our clients and their occupiers through workshops and consultations. We can also help link up this process with other stakeholders with an interest in your net zero journey. This helps ensure everyone involved is on the same page, smoothing bumps in the road to implementation. Please get in touch to find out more.



What's standing in the way?

The wider economic climate impacts how much finance is available for climate initiatives. An expected uptick in transactions and market confidence in 2025 indicates there may be more capital available for the net zero agenda, but budget constraints were still ranked as the biggest challenge for 62% of our respondents this year.

The second biggest challenge overall was the difficulty of collecting accurate data. This shot up from tenth on the list last year. Only a handful of respondents said that data collection was their greatest challenge, but it was in the top four challenges for 65%. Clearly, this is a widespread if not acute issue for the sector.

Insight from the Verco experts

Data collection is particularly difficult for occupier-managed assets without green leases, where there is no obligation to provide energy data to landlords. Innovations in data collection technologies and occupier engagement programmes are starting to facilitate smoother flows of data and ease reporting processes.

How Verco can help

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At Verco, our technical experts focus on supporting our clients in three key ways:

1. Providing strategic advice to help navigate the constantly shifting landscape, while managing NZC transition risks.
2. Delivering data and reporting solutions to comply with both mandatory and voluntary standards.
3. Conducting asset-level performance reviews with investment plans and technical delivery support.

Find out more

We are committed to addressing the challenges and utilising the drivers described above to help facilitate sustainable growth. Over the next year, we will respond to the developing needs of the market with a range of key service areas to support our clients:

Developing actionable transition plans that consider whole life carbon

Overcoming challenges posed by low quality and lack of data in order to build robust commercial plans.

Refining stakeholder engagement and delivering on new reporting requirements.

Engaging with occupiers and the wider supply chain to improve data streams and emission reduction policies

Developing programmatic implementation strategies for audit recommendations

Concluding thoughts

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Dave Worthington
Managing Director

2024 was the year of elections. More than 60 countries going to the polls impacted almost half of the global population. It is therefore not surprising to see from our survey that political uncertainty has dropped down the list of challenges for 2025. Whilst climate appeared to have slipped down the list of voter priorities, it is encouraging to see our survey participants retain and expand their net zero ambitions. This reinforces our view that last year's electoral outcomes, whilst potentially reducing the pace of progress in the short term, do not change the longer term course towards decarbonisation, underpinned by the strong drivers of increasing climate-related risks and economic and social benefits of mitigation.

Andries van der Walt
Director, Real Estate

As the real estate sector is showing positive signs of recovery, the challenge of delivering net zero at scale looms big in the minds of decision makers grappling to balance long term value with short term returns. Better data and cost effective, scalable solutions are needed but ultimately the adoption of whole life cumulative carbon approaches that transcend the boundaries of individual ownership will be critical for achieving the levels of decarbonisation that net zero demands. Now more than ever property owners need skilled technical advisors to support them in this journey.

References

Links

1. 2024 on track to be the first year to exceed 1.5ºC above the pre-industrial average | Copernicus

2. Fossil fuel CO2 emissions increase again in 2024 | UEA

3. Real Estate Outlook 2025: Nuanced Investing | Morgan Stanley

4. The Problem with Net Zero: Existing Buildings | World Green Building Council

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