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In real estate, the industry is seeing a shifting sentiment toward net zero, with many prominent industry actors integrating sustainability in their post-Covid recovery plans. At Verco, we have reflected upon our experiences over the last 12 months, and have collected further insight from a range of industry actors, through an online survey, to provide this review of the progress made in the real estate net zero transition in 2022. Thank you to all that shared your thoughts.

2022 in review

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Challenges for the climate crisis in 2022

While the world recovered from the impacts of the pandemic, record high temperatures were measured across the globe, energy prices and inflation soared and we faced a high risk of global recession. While the climate crisis was at the forefront for some ([UNEP's Emissions Gap Report](#) stating that no credible pathway to 1.5D exists), the same cannot be said for all ([Florida State](#) and other US investors divesting from Blackrock due to ESG focus) and many regard the outcomes of the Conference of Parties (COP27) at Sharm El-Sheikh to be insufficient in meeting the requirements of a carbon constrained future.

Drivers for change



Acceleration of published frameworks and guidance for defining a path to net zero in the last two years.

March

The UN launched an expert group to help steer non-state net zero commitments.

Global Level

November

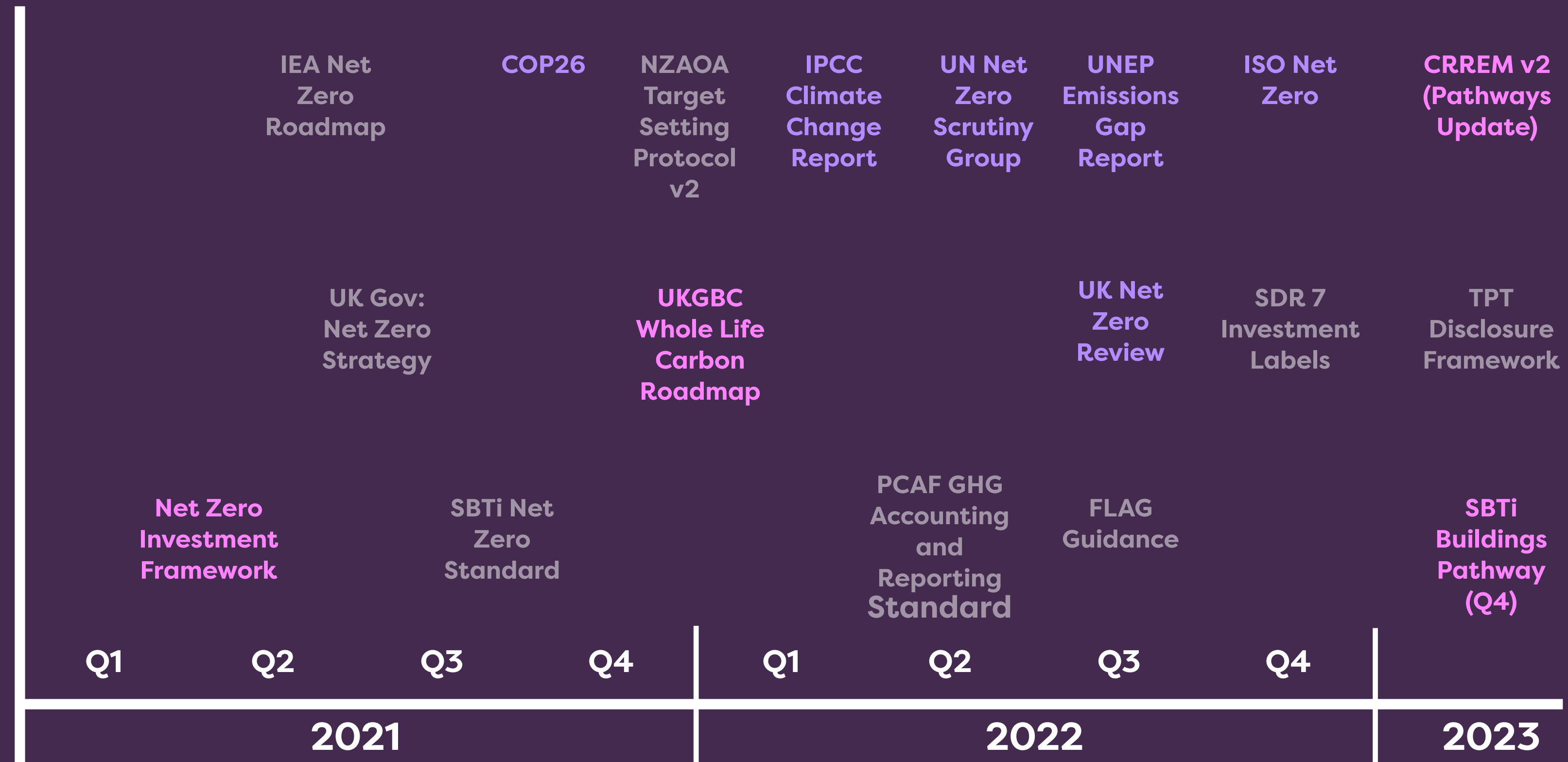
[ISO released a set of net zero guidelines.](#)

National Level (UK)

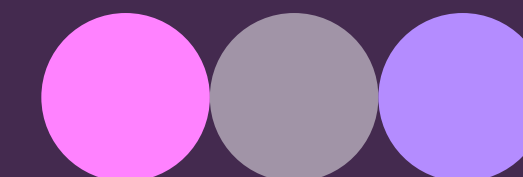
Throughout the year

Various industry bodies developed new frameworks and updated pathways to guide corporate entities to net zero.

Corporate Level



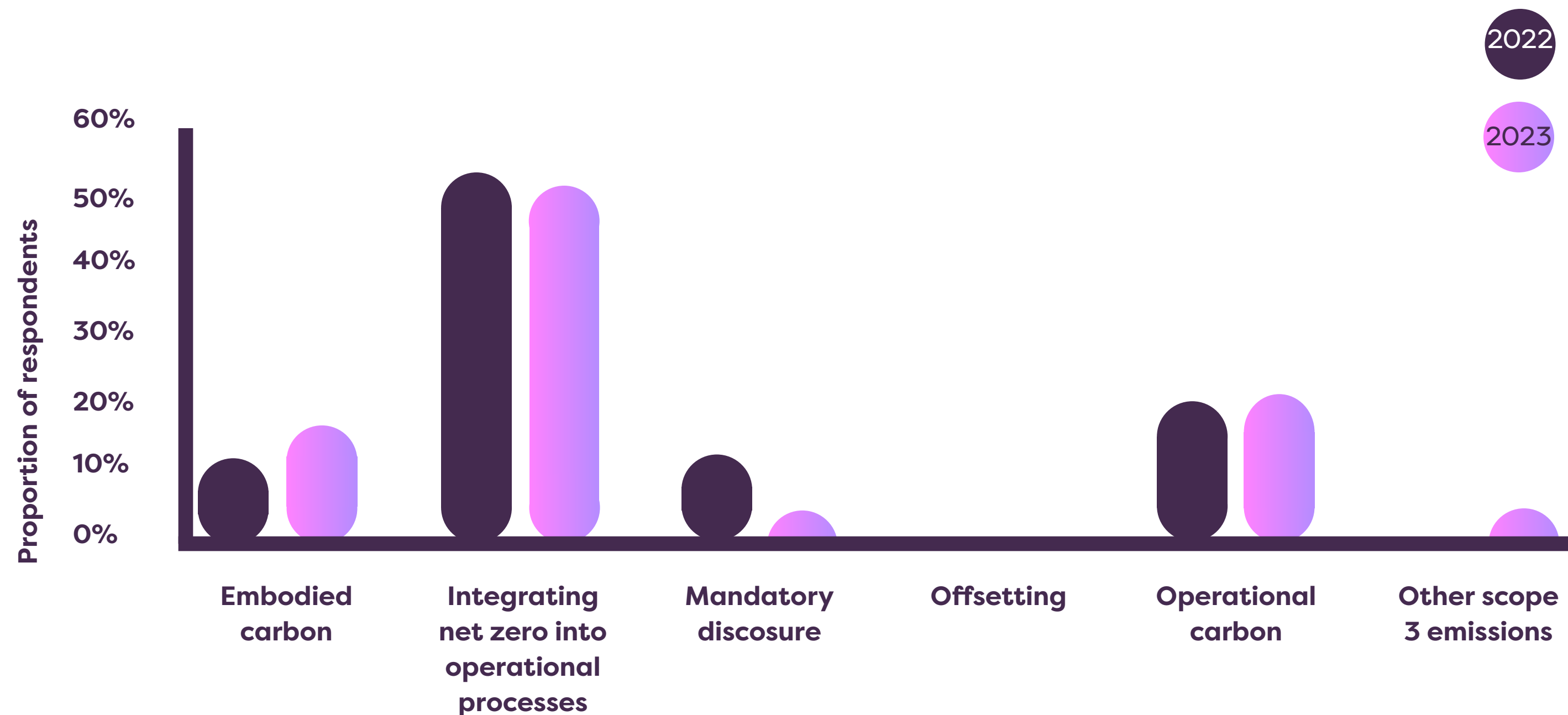
Sector-specific guidance



Broader guidance

2023 Priority focus

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Over the last 12 months, we have seen an increase in industry sentiment toward the net zero agenda. This has manifested in a number of ways, including:

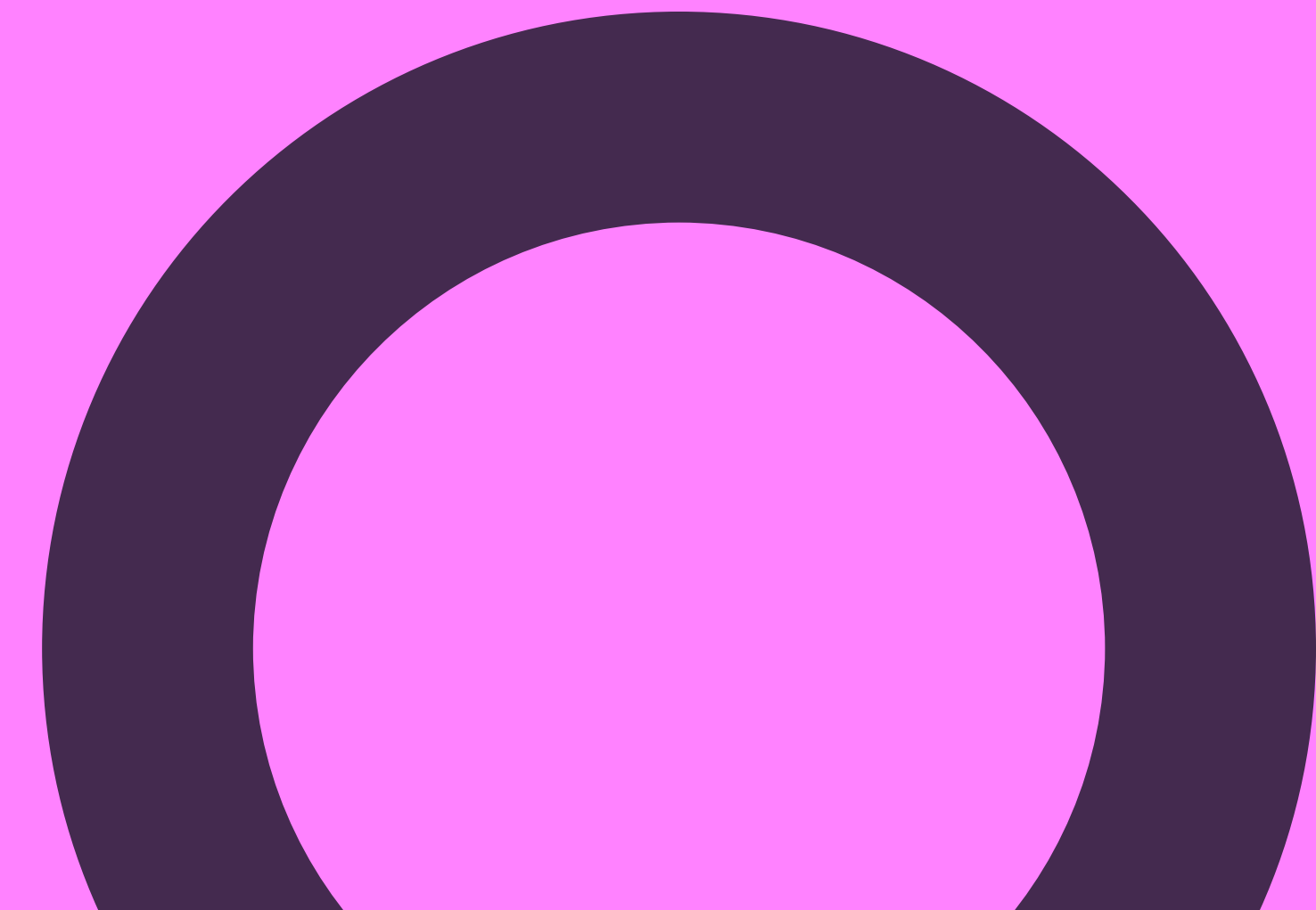
- Broader considerations of carbon impacts and mitigation strategies.
- More senior buy-in within industry leading organisations.

Facility managers and tenants have a key role.

These results are from a restricted sample of individuals, with the largest proportion considering themselves sustainability/ESG professionals.

Other stakeholders, such as facility managers and tenants must be recognised as the linchpins in the process of integrating net zero into operational processes. Their buy-in will avoid the disconnect between ambition and implementation.

Landsec are taking a market-leading approach in this area and Verco are leading their customer engagement programme, looking to support their tenants in reducing their operational energy use.



A focus on delivery



The organisations we work with are shifting away from simply setting reduction targets and strategic goals and are now focusing on delivering the necessary measures for achieving these targets.

This includes our role as NZC principal consultant for Federated Hermes to develop consistent overarching processes for [implementation of their NZC pathway](#). GHG reduction practices are being integrated into their operational processes at both the corporate level and at the more discrete investment/fund levels. This includes setting up a net zero working group, development of several internal guidance documents covering all stages of the asset lifecycle, and asset level NZC deep dives. This trend is reflected in the survey results below, not only through the majority of respondents selecting integration as a priority but also through the decrease in focus on disclosure for the coming year.

Operational priorities

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To minimise carbon exposure:

01. Remove fossil fuels at the earliest opportunity.

02. Reduce energy demand to support in the balancing of supply and demand.

03. Install and use renewable energy sources.

Decarbonising heating systems will become increasingly important

Whilst retaining a focus on optimising operational energy-use through efficiency programmes, it will be increasingly important to decarbonise heating systems. With in-house technical expertise and robust insight generated through our research with the [UK government into low carbon HVAC systems for non-domestic sectors](#), Verco is in a unique position to advise our clients on the solutions to be rolled out at the portfolio level.

CRREM global pathways update and the UK FCA Sustainable Disclosure Regulation are the prominent publications.

A year after the publication of Verco's research (commissioned by the Investment Property Forum - IPF) into the [net zero landscape in real estate](#), a number of new publications are being released which will influence the real estate net zero transition.

The [CRREM global pathways update](#) and the UK FCA Sustainable Disclosure Regulation were cited as the two most prominent of these publications by survey respondents, but a range of other documents have also been released that will be notable for those working in the sector. The number of sources that have cited the CRREM update as a prominent publication could be taken as a sign of the increasing integration of energy and carbon performance in risk management – a crucial stepping-stone to the full integration of net zero in investment strategies.

Having now completed the integration of the CRREMv2 targets into our Aim4Zero modelling tool and service, Verco is now able to provide costed and scheduled intervention plans for any real estate investment portfolio against these updated target. This approach moves the conversation from strategy to delivery with identified prioritised assets, and provides insight and metrics to meet GRESB's transition risk impact assessment. We have been advising [abrdn](#), [LaSalle](#) and [others](#) on NZC pathway development for a number of years and will continue to do so, informing fund managers, asset managers and investors.

Increasing focus on embodied carbon

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While the past few years have seen a majority focus on carbon emissions from heating and power loads in real estate, there is now a gradually increasing focus on embodied carbon also, as more datasets become available for its measurement.

With electricity grids reducing their carbon intensities and a move away from fossil fuel usage (driven by carbon, economic and energy security considerations), we predict that the coming years will see an exponential growth in focus on embodied carbon. This is additionally driven by increasing visibility and an understanding of the issues and balances required across whole life carbon, with a number of publications in the area adding clarity to the industry direction including Verco's contribution as we applied our extensive experience of embodied carbon in housing development to produce the recently published [Future Homes Hub Embodied and Whole Life Carbon Report](#). Real estate organisations looking to lead the market can support this increasing focus by contributing to local and international databases for embodied carbon data as well as ensuring a carbon price is applied at the corporate level to help influence decisions throughout design and development.

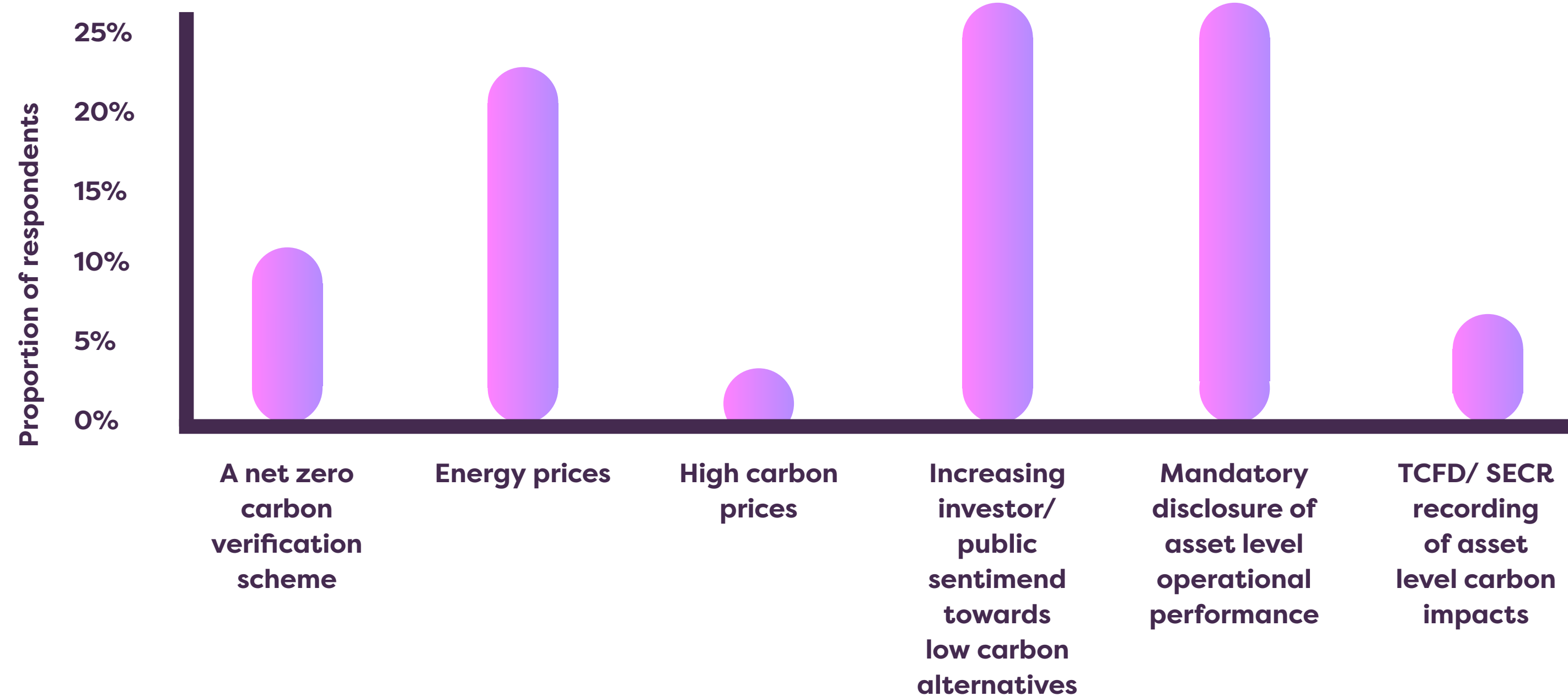
Watch our on-demand webinar: Embodied carbon in real estate

Our team share their insight and experience of calculating and reporting on embodied carbon. Find out more and watch the webinar here:

[Watch webinar](#)

Future drivers

As the net zero agenda continues to evolve and develop for real estate, the coming years are a crucial time to move from strategy and planning to action. In our survey, respondents selected what they felt would be the single biggest driver for net zero in the near future:



These drivers highlight breadth and immediacy, addressing stakeholders, regulation and the business case for a net zero transition. This will inevitably drive net zero into more operational areas. Verco's real estate team is structured to proactively respond and advise on these drivers with asset level energy audits, tenant and investor engagement, and reporting/disclosure programmes. There is increased focus on mandatory disclosure from respondents, compared with the priority focus question. This suggests it is a key driver for the future but not the single highest priority.

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01. increasing investor/
public sentiment

02. mandatory disclosure

03. Increased energy prices
provide a strong financial incentive.

Other drivers for net zero



UK Net Zero Carbon Building Standard

Many respondents cited the highly anticipated [UK Net Zero Carbon Building Standard](#) as being a more specific driver in the near future, highlighting that a single standard and clear verification scheme will provide greater clarity on the requirements of a robust transition in more countries than just the UK. Recognising the importance of this standard, Verco are members of three key working groups and will provide our industry-leading insight into its development.

While this standard will hopefully address whole life carbon considerations, most of the drivers mentioned by stakeholders focus on carbon reduction in operational assets, and fail to address the whole life carbon impact of the built environment. Real estate investors and managers need to ensure that net zero considerations are integrated throughout the lifecycle of each individual property holding, as well as at the corporate level.

Ability to share data

Another notable driver that was mentioned was the ability to share data. This applies not only to the relationship between landlord and tenant but also between organisations and their suppliers. At Verco, we have seen a relatively consistent increase in focus from our clients in both of these areas over the last year, but this push is no longer as one-sided as we have previously seen – for example, more and more tenants that we speak with want to work with their landlords to have greater visibility on their consumption profiles and to support their ongoing energy management practices. As highlighted in the IPF research published last year, this alignment of ambition, particularly between landlords and tenants, will be crucial in achieving a sufficiently carbon constrained future.

How Verco can help

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As experts in the field of low carbon technologies, energy reduction and management strategies, Verco is able to help clients stay at the cutting edge of the net zero transition. Immediate implementation and operationalisation are going to be the focus of the coming months for real estate organisations, as energy prices rise and industry sentiment toward the net zero agenda continues to shift in its favour.

As well as more traditional NZC strategy, reporting and management support, Verco is currently working with our clients on a range of emerging areas across the asset lifecycle, including;

Tenant engagement

Getting under the skin of the owner/occupier relationship and the associated technical and financial challenges to reducing energy demand and carbon emissions;

Whole life carbon assessments

Supporting clients with life-cycle assessments and strategic programmes to move from generic spend based factors to an industry database of supplier specific Environmental Product Declarations (EPDs);

Transition costs and internal carbon pricing

Advising on NZC pathway costs at an asset and portfolio level, and the opportunities, constraints and mechanisms to raise the capex required;

Digital solutions and innovative data sharing platforms

Providing clients with the ability to track progress and proactively engage stakeholders.

Net zero due diligence support

Quantifying potential carbon liabilities during acquisition or major refurbishment of standing assets.

[Find out more](#)

Verco's perspective

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We are constantly challenging and evolving the services we offer our clients, to ensure that our support is relevant, meaningful and impactful and would welcome the opportunity to discuss your priorities. Two of our directors share their thoughts on the industry's direction below.



All the drivers highlighted in the above article are pointing in the same direction – a driving down of consumption and carbon. While we are hearing some stakeholder concern that organisations are pricing carbon into their strategies too soon, greater 'sticks' are coming. Property owners, managers and investors that fail to rise to the challenge now will find they miss the most opportune and cost-effective intervention points for their assets. Take opportunities as they come, because it could be a lot more destructive if you do not.

Andries van der Walt - Head of Real Estate



It is surprising but reassuring to see the diversity in drivers cited by respondents to the survey. This demonstrates the complexity that ESG teams face in delivering solutions that meet the needs of all impacted stakeholders and the increasing business cases that are available to do so. At Verco, we are proud to be working at the cutting edge of the industry transition and our continued involvement in shaping these drivers will allow us to support our clients in delivering the bespoke solutions that their stakeholders require.

Dave Worthington - Managing Director



A lot happened in 2022, both positive and negative when viewed through a climate change lens. As politicians continue to insufficiently deliver on the requirements for a low carbon future, corporate entities must step up in 2023 and utilise the existing drivers to build the business case around their sustainable strategies. The transition to a low carbon built environment will not be linear or smooth and we can see challenges in the road ahead, but momentum is building fast with delivery programmes accelerating. We look forward to what the coming year will bring.