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WORLD BUILT ENVIRONMENT FORUM

Sustainability Report

2021

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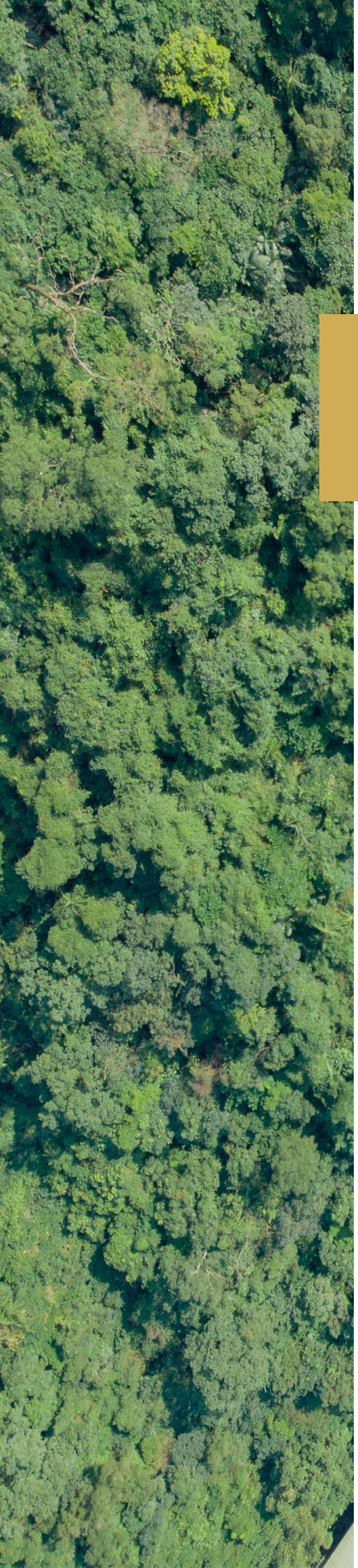

World Built Environment Forum Sustainability Report
2021

Report written by:
Kisa Zehra
Sustainability Analyst
RICS

Editor:
John Ramshaw
Manager
World Built Environment Forum

Supervising Editor:
Kay Pitman
Thought Leadership Specialist
World Built Environment Forum

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RICS, Parliament Square, London, SW1P 3AD
www.rics.org

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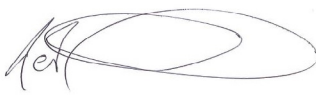
1.0 Foreword

In any given year, the construction, operation and decommissioning of buildings will be responsible for roughly 40% of total global greenhouse gas emissions. There can be no doubt, then, that the built environment is a linchpin of the international coalition of industries seeking to remediate damage caused by historic, carbon-intensive practices. As such, to probe the attitudes of the sector's people is to open a window on our collective prospects of avoiding climate catastrophe. The World Built Environment Forum Sustainability Report 2021 may well be the largest such exercise ever commissioned.

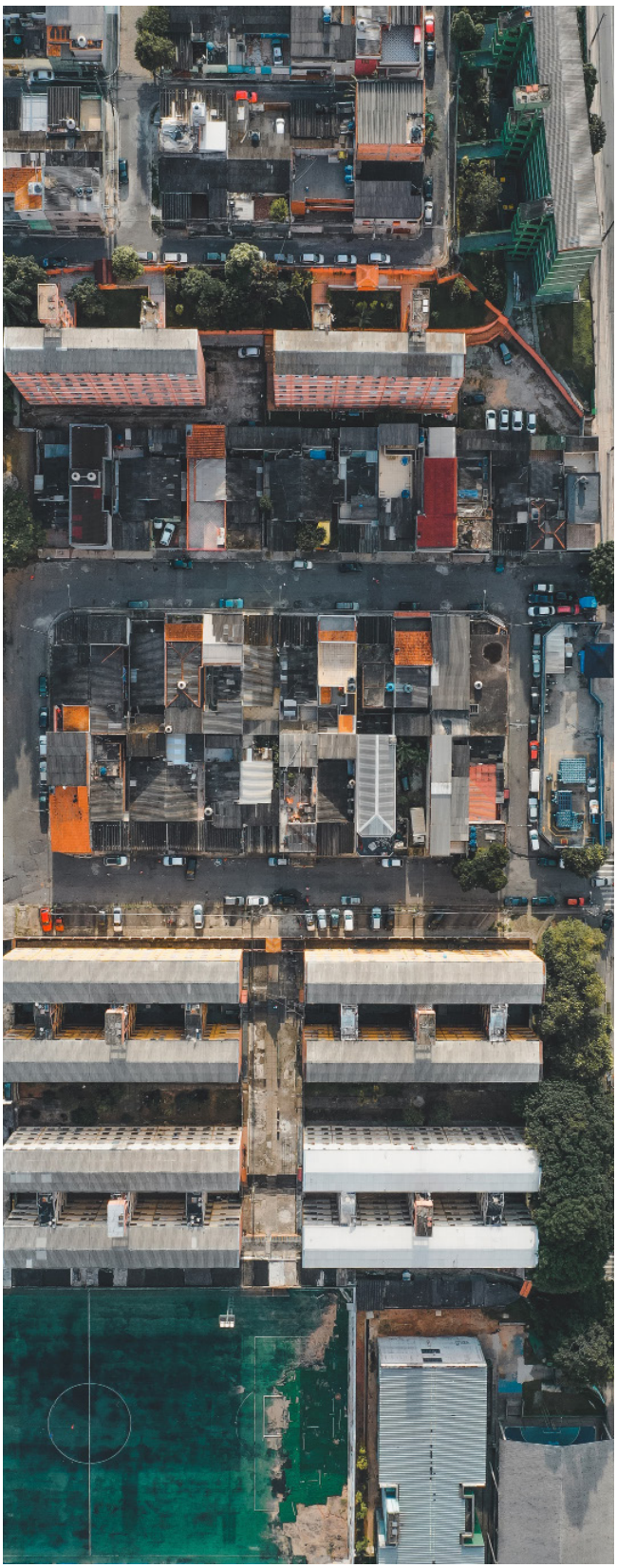
Thousands of professionals from the worlds of commercial real estate and construction responded to our call. Over 30 countries are represented in their number. While this is only a monitor of prevailing sentiment, rather than a hard analysis of emprical datapoints, sentiment does matter. In fact, the results of professional sentiment monitoring can, in some cases, foretell market conditions by over a year. That was the conclusion of an independent research project, undertaken by European Central Bank economists, and published by WBEF only last month. The findings of this report are no less instructive for dealing in perception and intuition.

In the aggregate, the results are mixed, but tend towards the positive. Two overarching and inseparable facts ring out clearly from this work: we are moving in the right direction, but we must move faster. Our success in decarbonising the built environment will not guarantee the future of the planet; the sector simply cannot do this alone. But our failure, should it occur, will mark the failure of our entire species.

It is an enormous responsibility, and one that cannot be abrogated.



John Ramshaw
Manager
World Built Environment Forum



2.0 Executive summary

The RICS Global Commercial Property Monitor (GCPM) and the RICS Global Construction Monitor (GCM) are the leading indicators of market conditions in the built environment. In Q2 2021, in addition to the regular set of questions, we sought the opinions of over 4000 professionals on a range of emerging sustainability-related issues.

Contributors were asked to share their thoughts on how the climate agenda is shaping trends and practices in the sector. In particular, this research explores how preferences have changed for green buildings, and the principal factors behind the growing interest in environmental, social and governance (ESG) investing. It goes on to examine the extent to which the construction sector is adopting green initiatives including materials re-use and carbon emissions measurements.

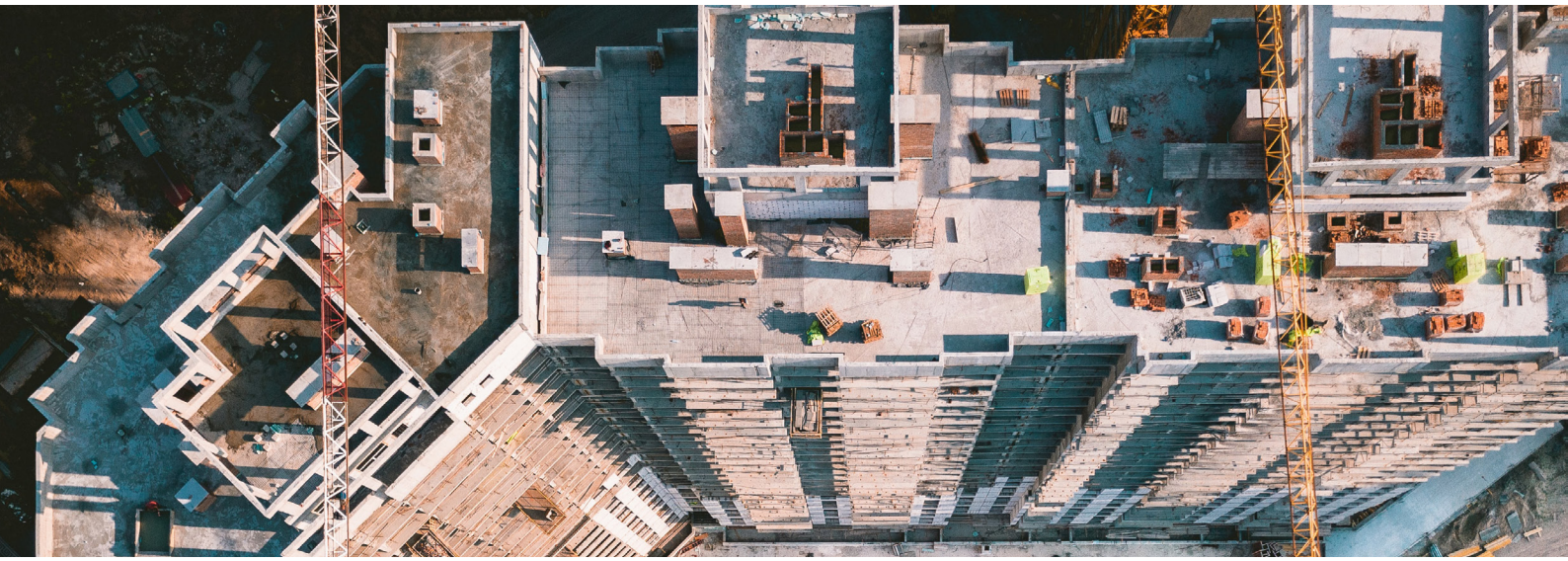
Moving forward, this study can be used to track progress and enhance understanding of emerging sustainability trends in the worlds of construction and real estate. It will be instrumental in identifying high- and low-performing markets, gaps in knowledge and shortcomings in practice. The findings are spread across four broad geographies: the Americas, Asia Pacific, Europe, and the Middle East and Africa.

Overall, results suggest that the industry is making progress, though not at the rate required to fully meet its climate obligations. At the aggregated global level, and across individual regional groupings, respondents consistently report 'modest', rather than 'significant', demand growth for green real estate assets, leases and construction materials. Nearly half of respondents see evidence of an emerging rent and price premium for green buildings, though a relatively small share report value uplifts exceeding 10%. And, across the world, environmental regulations are deemed to exert only limited influence on day-to-day operations.

Much room for improvement remains. In the construction sector, for instance, a sizeable majority of respondents currently take no measurement of carbon emissions over expected project life cycles. Of those who do, fewer than one-in-six use the measurements to guide their choice of materials and components. One corollary finding is the clearly stated need for a global standard on carbon measurement. In certain markets, one-in-three respondents identifies the absence of any such standard as a restricting factor.

Selected results, though, give cause for genuine optimism. Client, investor and stakeholder demand is cited as the number one driving force behind the recent growth in environmental, social and governance (ESG) investments. The perceived reputational boost attached to ESG activity also scores highly, while profit motives are cited by less than one-fifth of respondents. Together, this could be taken as evidence that market priorities are shifting.

Responses also suggest that Europe is setting the pace on climate action, though allowances must be made for the differing nature of the challenge between regions.



3.0 Global Commercial Property Sector

Survey feedback from across the commercial property sector suggests that interest in green and sustainable buildings has risen to some extent over the past year.

The RICS Sustainable Building Index, designed to track global occupier and investor appetite for green/sustainable buildings over the last twelve months has posted a net balance reading of +55[1] for 2021. This clearly points to a rise in demand for climate-adapted real estate. Results vary from region to region (Figure 1), with demand growth in Europe leading Asia Pacific, the Americas, and the Middle East and Africa.

Around three-fifths of respondents globally report that occupier demand for green/sustainable buildings has grown over the past twelve months. Most (around 47%) detect only a modest rise, while just over 10% note a significant pick-up.

The growth in occupier demand for green/sustainable buildings is most pronounced in Europe (Figure 2). Just over half of respondents note modest demand growth across the region, with a further 15% reporting a more significant shift.

Responses point to broadly similar trends in investment markets. Around 45% of those surveyed globally report a modest pick-up in investor demand for green/sustainable buildings in the past year. A further 16% detect a more significant increase in interest.

Again, Europe appears to be leading the way (Figure 3). Across the continent, around three-quarters of contributors note rising investor demand, with almost 45% seeing a modest increase. Almost one-third of Europe-based respondents report more significant demand growth over the past year. This contrasts starkly with other regions covered in this survey. In the Middle East and Africa, Asia Pacific, and the Americas alike, the proportion of respondents reporting a significant rise in investor demand for green/sustainable buildings is only around 10%.

Globally, a noteable share (around one-third) of respondents have seen no change in occupier or investor demand for green/sustainable buildings.

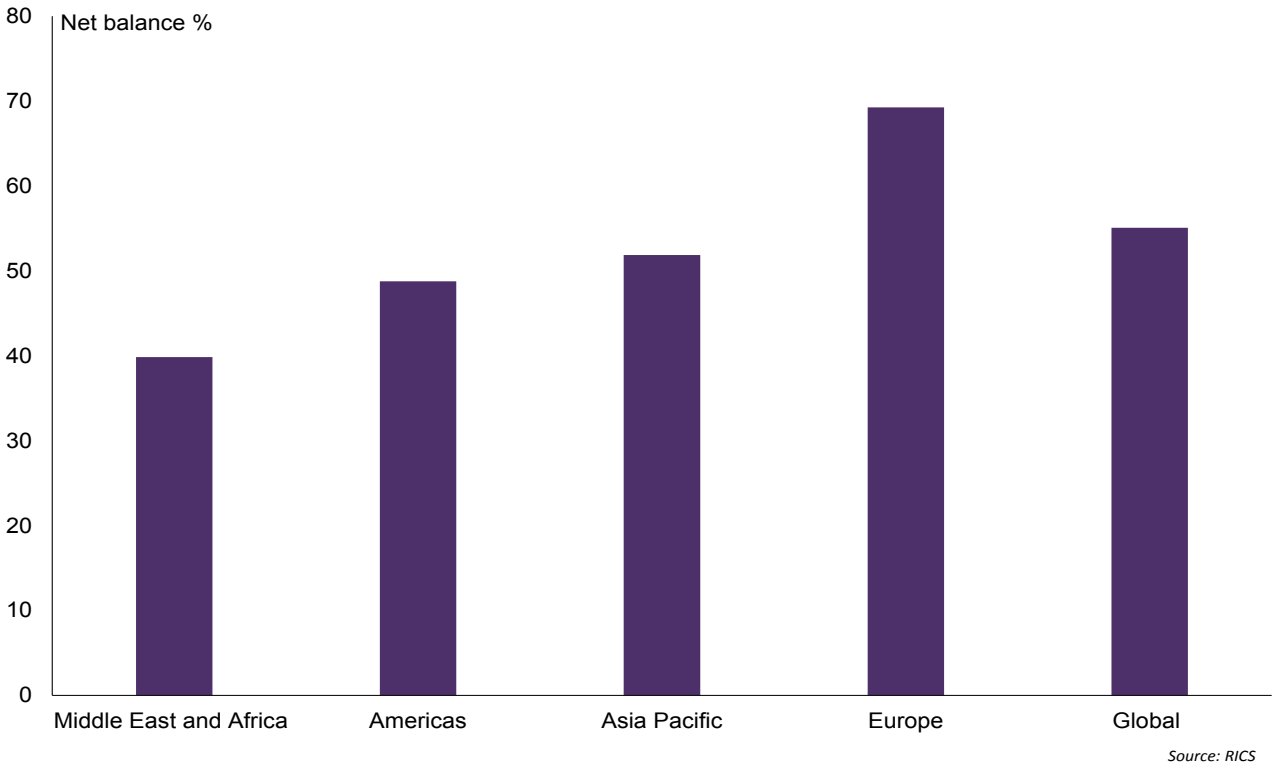


Figure 1 RICS Sustainable Building Index

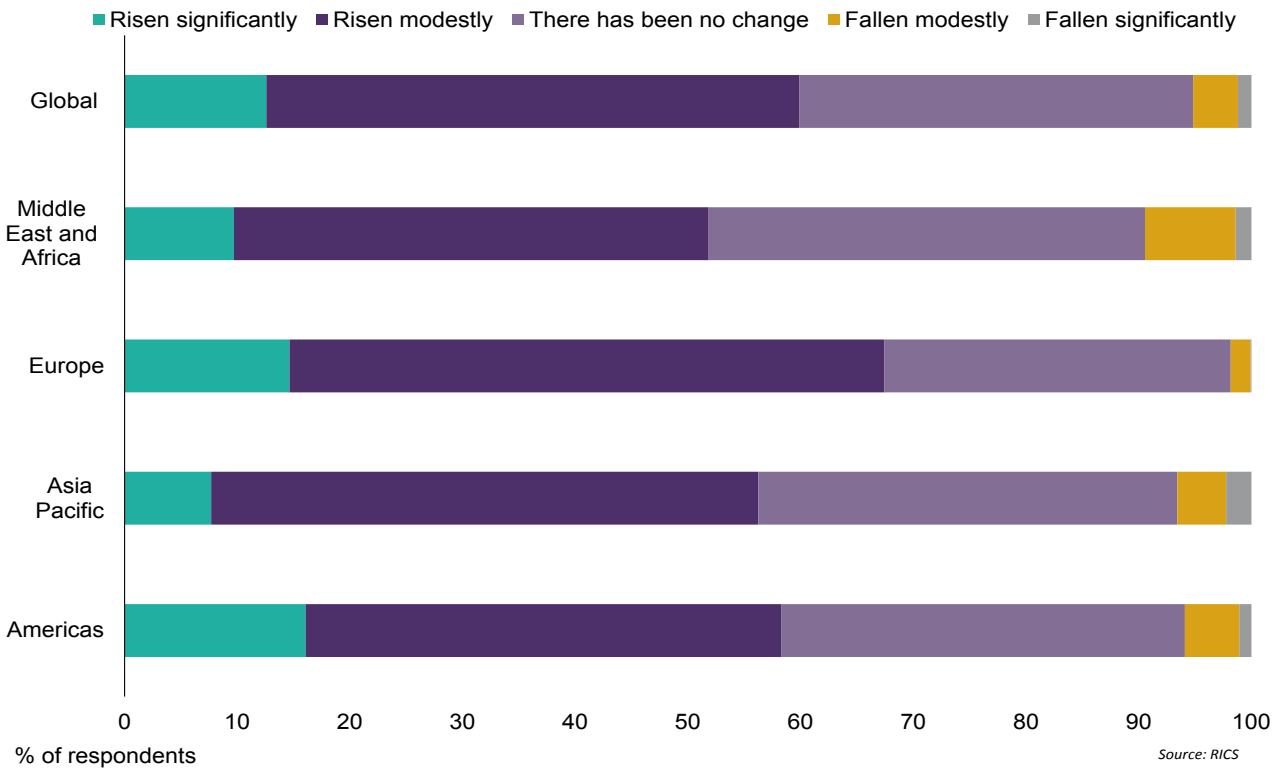


Figure 2 Change in occupier demand for green/sustainable buildings in the last twelve months

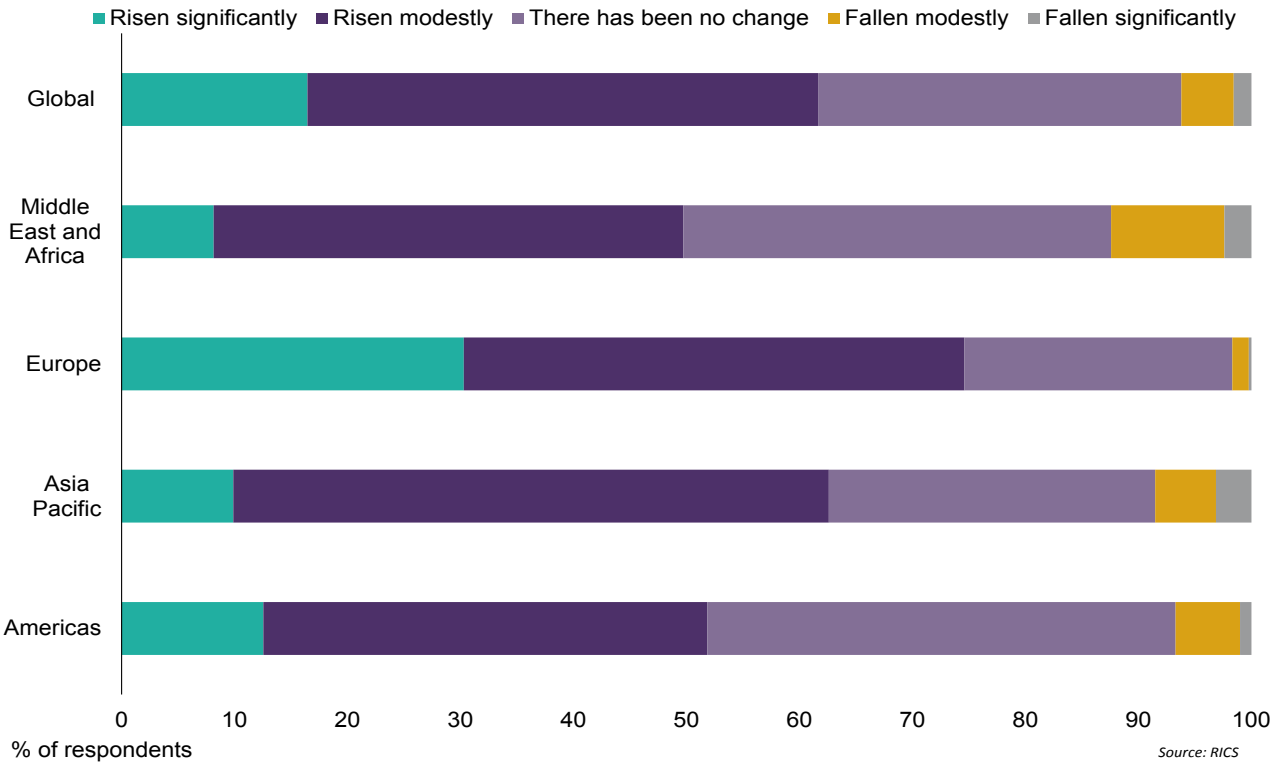
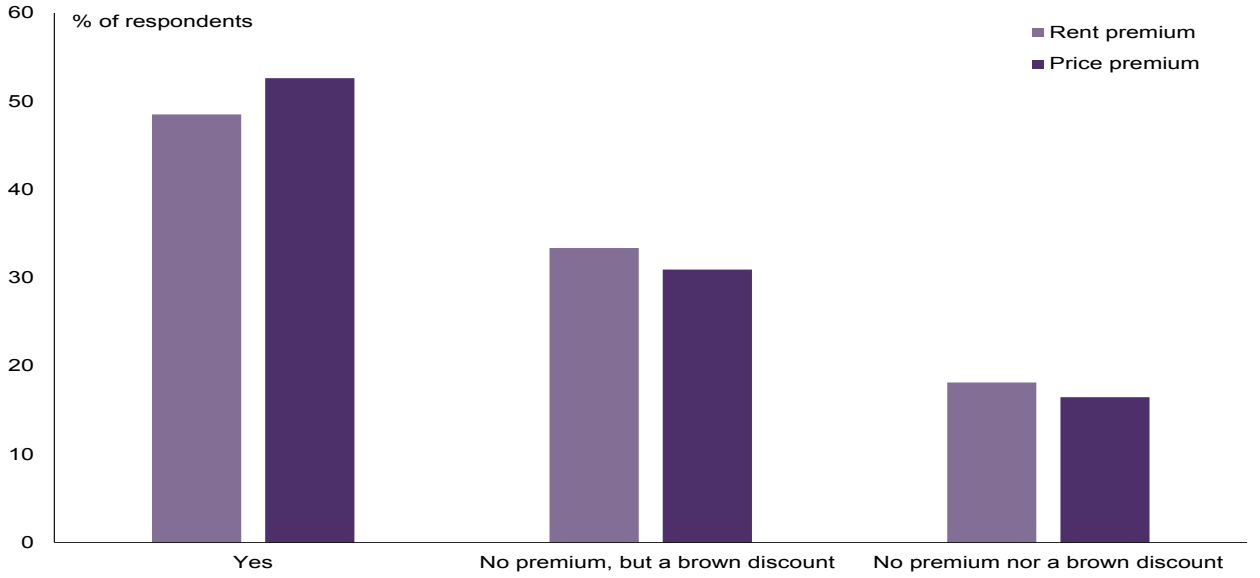


Figure 3 Change in investor demand for green/sustainable buildings in the last twelve months

In spite of the economic distress caused by COVID-19, just 5% of respondents note a fall in occupier demand for green/sustainable buildings. Feedback on the investor side of the market paints a similar picture, with only 6% reporting dampened appetites.

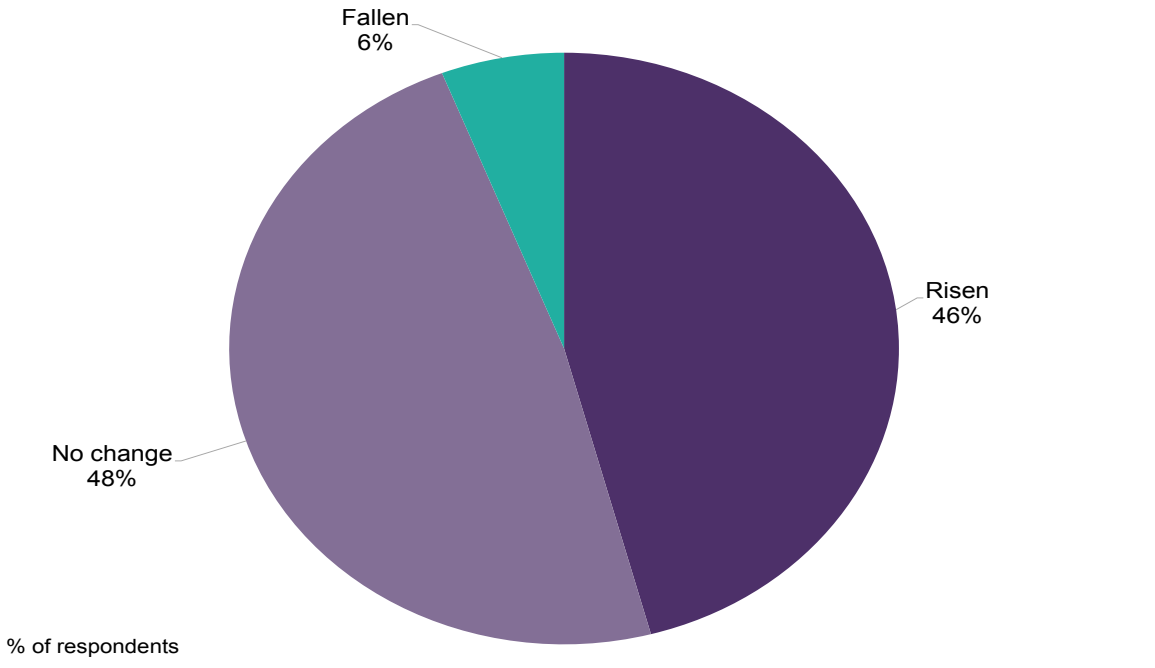
It appears that the modest pick-up in demand is having some impact on rents and prices. Globally, around half of respondents believe that green/sustainable buildings achieve a rent and a price premium over comparable non-green/sustainable buildings (Figure 4). More than one-third believe that the rent and price premium stands at up to 10%; around 15% judge it to be higher still.

Furthermore, over 30% of respondents suggest that, even if there is no rent or price premium, buildings not classed as green or sustainable are subject to a brown discount. Conversely, less than 20% of respondents believe there to be neither a rent or price premium nor brown discount.



Source: RICS

Figure 4 Rent and price premium for green buildings



Source: RICS

Figure 5 Change in the provision of green leases in the last twelve months

The evidence also points to an emerging trend for landlord and tenant arrangements that encourage, or even contractually impose, standards around the sustainable management of buildings. A green lease incorporates clauses whereby the owner and the occupier assume specific responsibilities relating to the sustainable operation of a property. These commitments include, but are not limited to, energy, waste and water efficiency measures. Globally, almost half of respondents note an increase in the popularity of such agreements. Around 40% determine this pick-up to be modest. A slim majority sees things differently, noting either a fall in demand for green leases or, more commonly, no change at all (Figure 5).

At global level, a sizeable proportion of respondents (over 40%) identify client, stakeholder and customer demand as one of the principal driving forces behind the Environmental, Social and Governance (ESG) investment boom[2]. Increased awareness of ESG risks and opportunities is the second most commonly stated influencing factor. Meanwhile, less than one-fifth of respondents attribute the emergence of this trend to the potential for higher returns (Figure 6).

Survey results in the Americas and Asia Pacific closely map on to the global picture. In the Middle East and Africa, regulatory and legal requirements are named by just under 40% of respondents as among the main causes of the ESG investment boom.

In Europe, around 47% of contributors believe brand image and reputation to be among the primary causal factors. Only marginally fewer named demand from clients, stakeholders and customers. Roughly 42% of Europe-based respondents point to regulatory and legal requirements as a major driver of ESG investment, a larger proportion than in any other surveyed region. This could be a response to the European Commission's new sustainable finance strategy, which aims to encourage private investment in sustainable and low-carbon jobs as part of the European Green Deal.

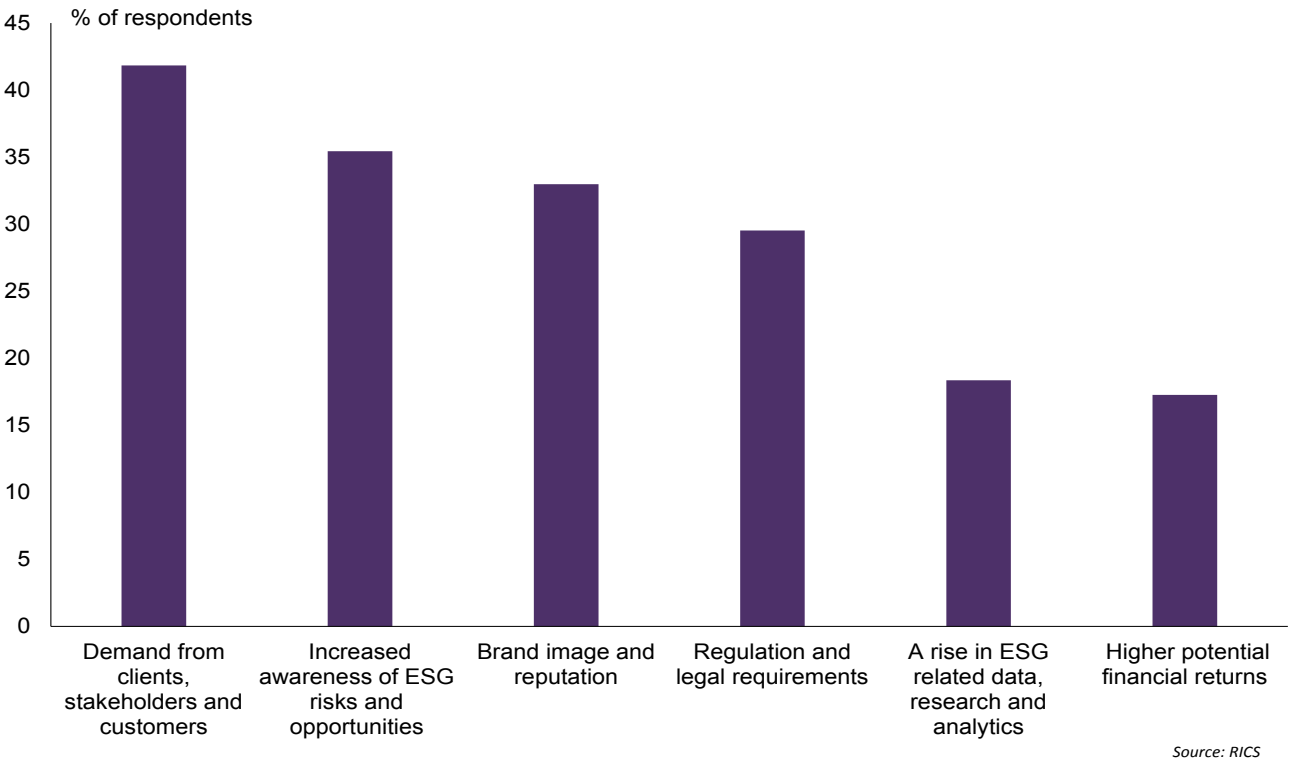


Figure 6 Factors driving ESG investment

4.0 Global Construction Sector

Feedback from construction professionals suggests that, while environmental and sustainability issues are beginning to influence the industry, important gaps remain[3].

Globally, almost two-thirds of respondents name minimising waste among the industry's list of priority concerns on sustainability (see Figure 7). Meanwhile, around half cite the resilience of construction products, materials and components. Fewer still see a decline in either operational or embodied carbon emissions as being of foremost importance. The impact of construction projects on biodiversity places towards to the bottom of the list, cited by less than a quarter of respondents.

Figure 8 shows results across the four global regions. Perhaps unsuprisingly, minimising water consumption is a higher order concern in the Middle East and Africa than anywhere else. Over 50% of respondents in the region name it among their leading concerns, while 64% cite the minimisation of waste more generally.

In Europe, too, waste is a principal concern, being cited by over 50% of respondents. Embodied and operational carbon counts as a similarly pressing concern across the continent; no more so than in the UK, Ireland and Germany, where they are referenced by nearly two-thirds of respondents.

The picture is entirely different in India, where between 20-30% consider a decline in operational and embodied carbon to be a leading industry priority. A much larger proportion hold water consumption and materials resilience to be important, while waste, cited by around three-quarters of respondents, heads the list of concerns.

A further question was dedicated to assessing the extent to which regulatory conditions are steering the sector towards better sustainability practices. Participants were asked to assess the situation in their country on a scale of 1 (regulation not having an impact at all) to 6 (regulation having a significant impact). The results show a global average rating pitched between 3 and 4, suggesting that environmental and sustainability regulations are seen as having a middling influence on the sector.

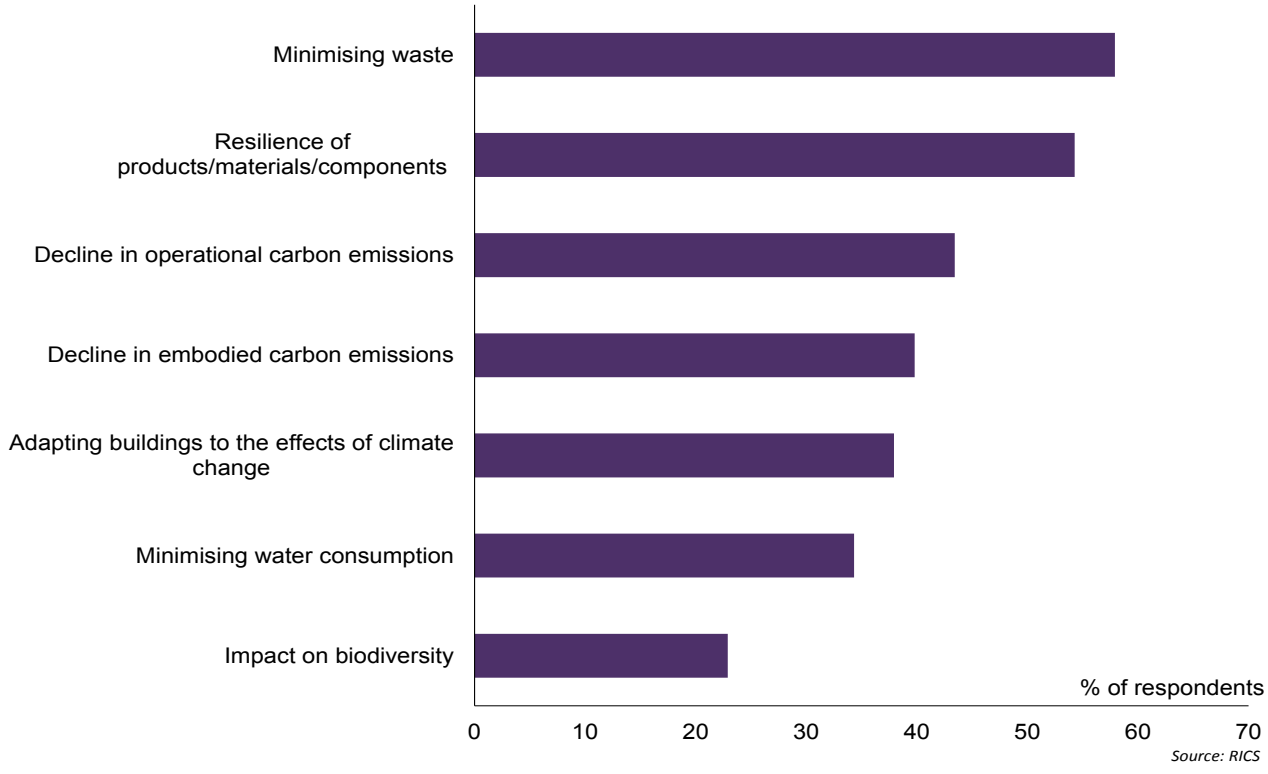


Figure 7 Important sustainability factors in construction projects globally

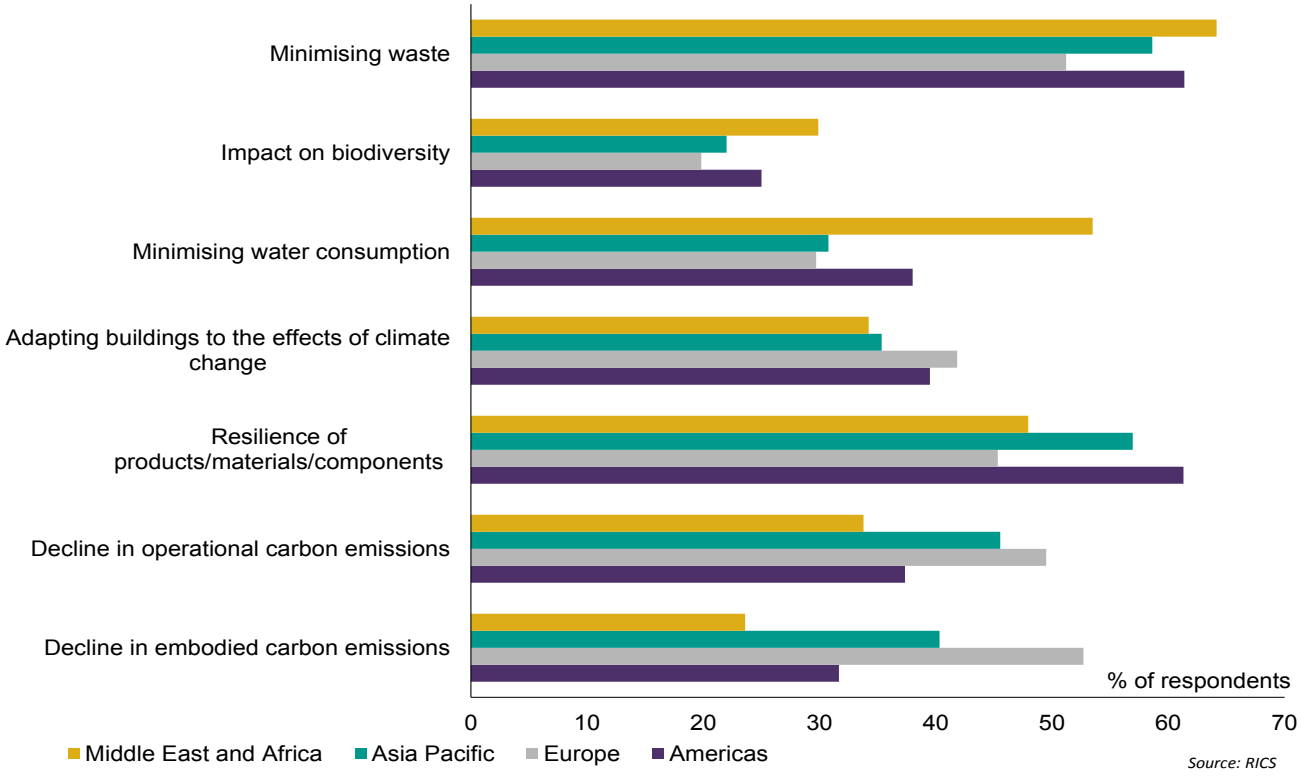


Figure 8 Important sustainability factors in construction projects by region

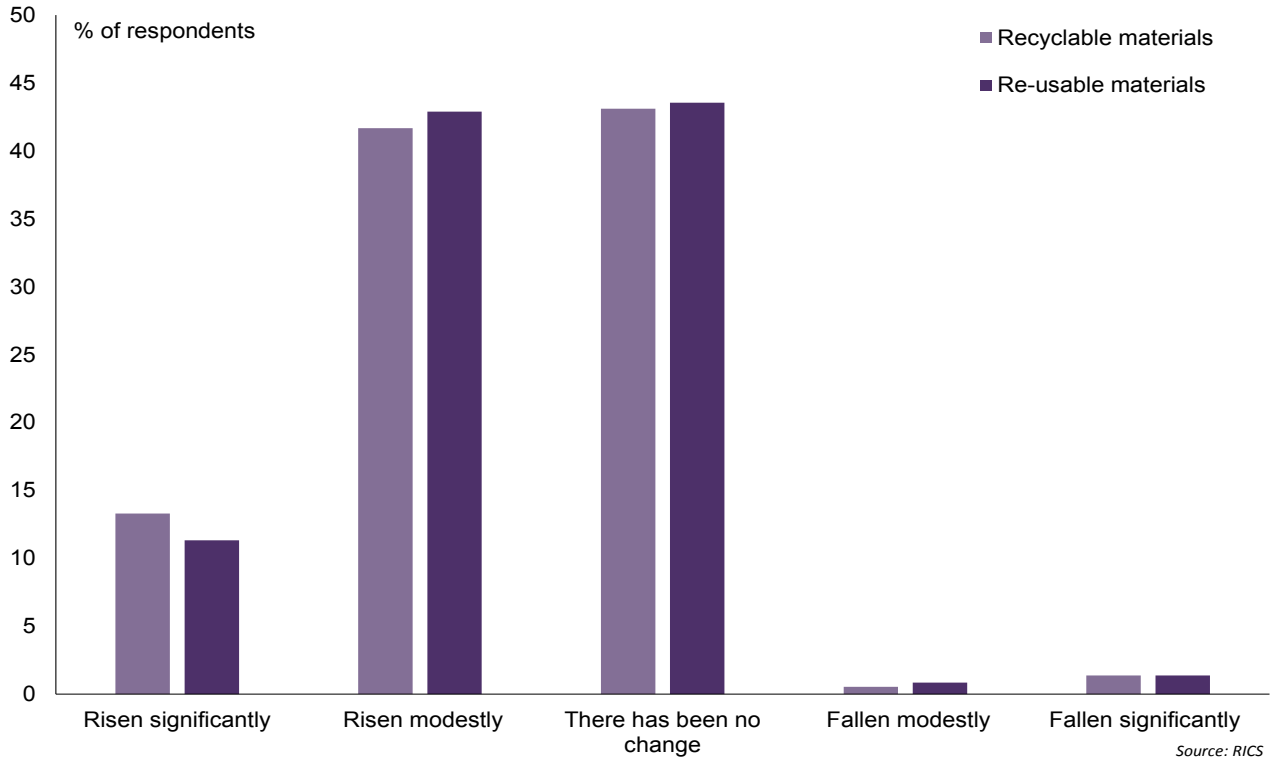


Figure 9 Change in demand for recyclable and re-usable materials in the last twelve months compared to other materials and components

A majority of contributors (around 55%) note increased demand for recycled and re-usable materials over the past twelve months, relative to other materials and components. Around 13% of respondents deem this demand growth to be significant, while a further 42% report a more modest pick-up (Figure 9).

A sizeable share of contributors see it differently. Globally, around 43% report no change in demand for recyclable and re-usable materials while a negligible percentage report falling interest.

The outlook in Asia Pacific, the Middle East and Africa, and Europe is broadly similar to the global picture. Across the Americas however, more than 50% of contributors report unchanged demand for recyclable and re-usable materials.

The buildings and construction sector is responsible for around 40% of global carbon emissions[4]. Survey participants were therefore asked to give insights on embodied and operational carbon measurement practices across the industry.

Globally, over 70% of contributors state that they make no measurement of operational carbon emissions across the life cycle of their projects (Figure 10). This share is higher still (close to 80%) across the Middle East and Africa, and the Americas. In Europe, only around one-third of contributors are measuring operational carbon across project life cycles. The feedback from Asia Pacific broadly aligns with results at the global level.

Similarly, more than half of respondents state that they make no measurement of embodied carbon emissions on their projects (Figure 11). Significantly, there is very little evidence to suggest that, where embodied carbon measurement does occur, it is meaningfully impacting the selection of materials and components. The share of global respondents who both measure embodied carbon and use the measurements to guide the selection of materials and components stands at less than 14%. Around 18% state they would like to measure embodied carbon if a standard approach to measurement existed.

Across the Middle East and Africa, the share of contributors who do not measure embodied carbon stands at around 70%. This figure is lower (60%) in the Americas. There, only 5% of those who do take measurements say that the process has a significant impact on their choice of materials and components.

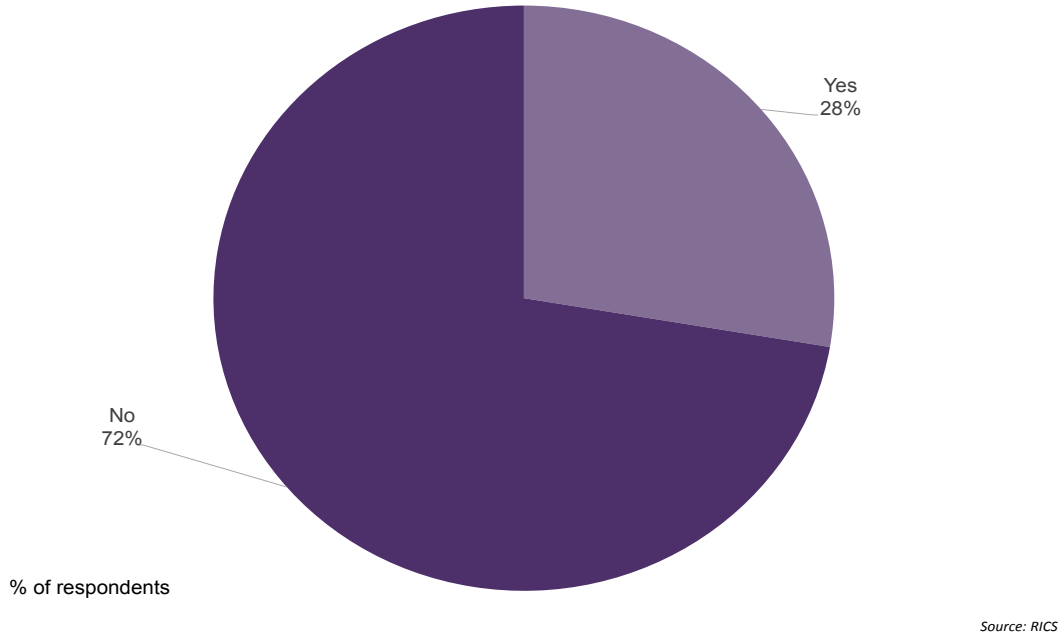


Figure 10 Currently, do you measure operational carbon emissions over the expected life cycle of your projects?

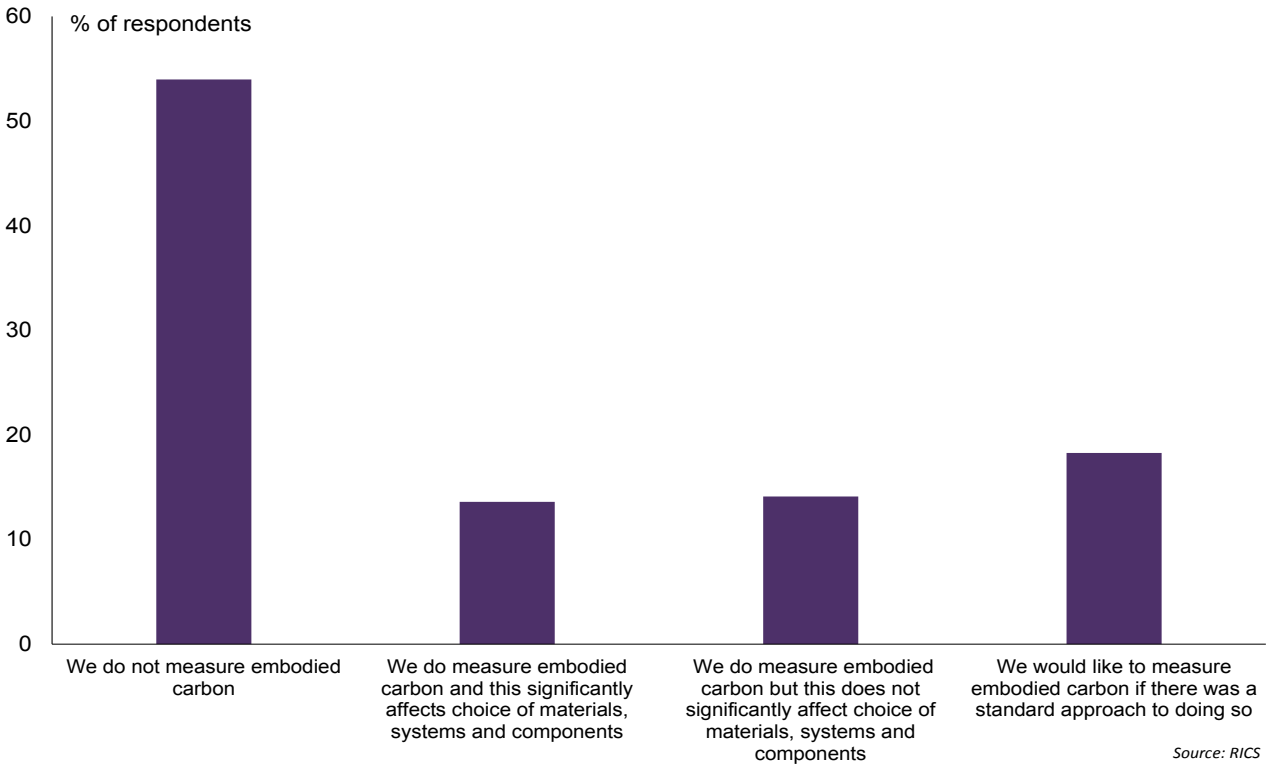


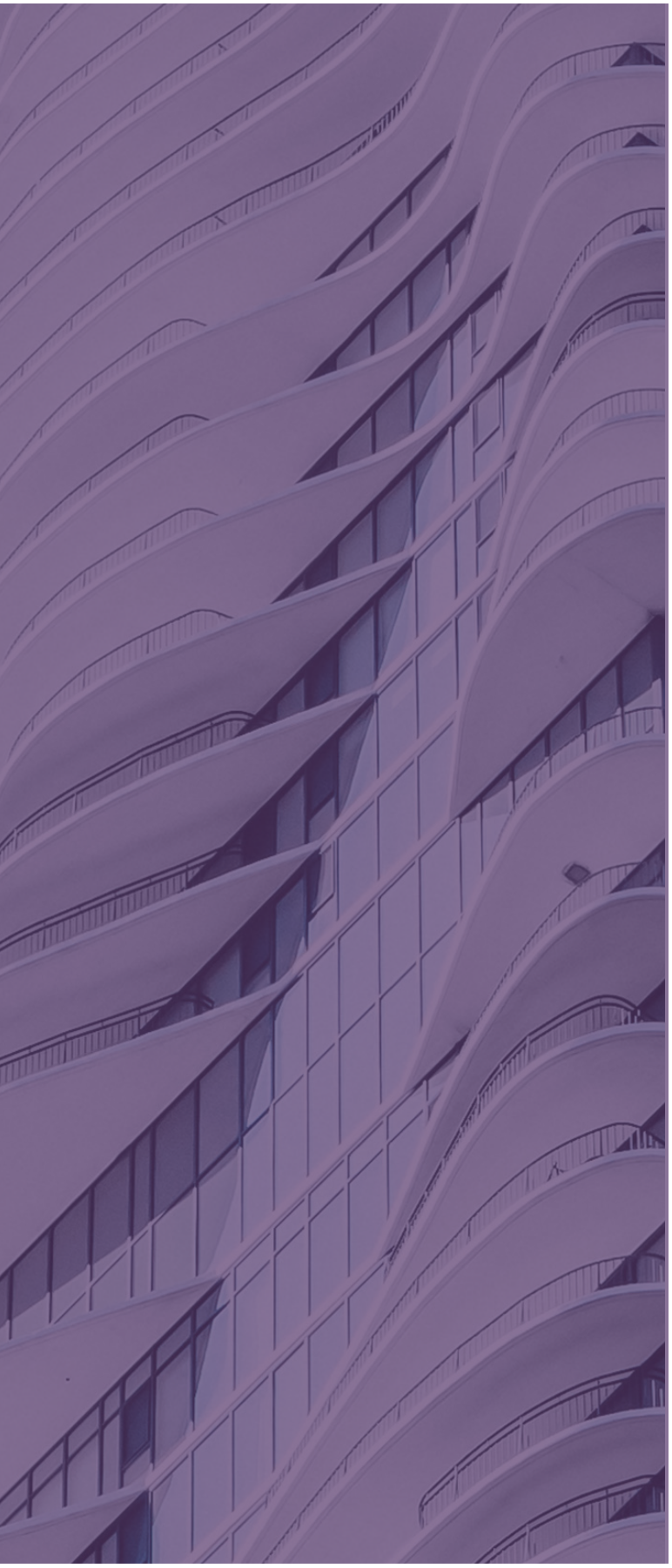
Figure 11 Currently, do you measure embodied carbon emissions on your projects and, if so, how significantly does this affect the choice of materials, systems and components?

Feedback from Europe is only slightly more encouraging. Around 45% of respondents from the region do not take any measurements of embodied carbon. But, around one-fifth do, and this does significantly affect their choice of materials and components. Europe has the highest proportion of contributors registering this response.

Meanwhile, around 19% of respondents from Europe agree they would like to measure embodied carbon if there was a standard approach to doing so. A similar share of contributors state this to be case across Asia Pacific and the Americas. Country level data shows appetites for standardised carbon measurement to be highest (over 30%) in New Zealand, Philippines and Singapore.

5.0 Endnotes

1. Net balance is calculated by the proportion of respondents reporting a rise in demand minus the proportion reporting a fall.
2. Contributors were asked to select what they considered to be the top three drivers of rising ESG investment.
3. Contributors were asked to select what they considered to be the top three most important sustainability trends in the construction industry.
4. Statistics from 2020 Global Status Report for Buildings and Construction, World Green Building Council: https://globalabc.org/sites/default/files/inline-files/2020%20Buildings%20GSR_FULL%20REPORT.pdf



Information

Global Commercial Property Monitor

RICS' Global Commercial Property Monitor is a quarterly guide to the trends in the commercial property investment and occupier markets. The report is available from the RICS website www.rics.org/economics along wIth other surveys.

Global Construction Monitor

RICS' Global Construction Monitor is a quarterly guide to the trends in the construction and infrastructure markets. The report is available from the RICS website: www.rics.org/economics along with other surveys.

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We are RICS. Everything we do is designed to effect positive change in the built and natural environments. Through our respected global standards, leading professional progression and our trusted data and insight, we promote and enforce the highest professional standards in the development and management of land, real estate, construction and infrastructure. Our work with others provides a foundation for confident markets, pioneers better places to live and work and is a force for positive social impact.

Americas, Europe, Middle East & Africa
aemea@rics.org

Asia Pacific
apac@rics.org

United Kingdom & Ireland
contactrics@rics.org

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