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As legislation deadlines loom, Europe risks threat of stranded office assets

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Savills has calculated that 74% of offices are below the required EPC B label in the UK and 40% of offices do not have the required EPC C label in the Netherlands, presenting a huge risk for capital returns due to the proposed obsolescence rules in these countries.

According to Savills latest research, the financial value of European real estate portfolios is at risk from the growing potential for stranded assets. A 'stranded asset' is a property that will fail to meet future energy efficiency standards or market expectations, and as a result is increasingly likely to face early obsolescence. Investors will be seeking to avoid assets at risk of stranding, or incurring penalties for failing to comply with tightening legislation says the international real estate advisor. The value of an asset will be impacted if it does not meet occupational, investor and legislative standards.

The Décret Tertiaire in France is a binding regulation that sets out the reduction of energy consumption in existing tertiary use buildings, with a target of at least 40% reduction in 2030, 50% in 2040 and 60% in 2050. While only 9% of sampled stock in France is at risk under the EU EPC E by 2030, to achieve a 40% reduction in energy consumption by 2030, improving the energy efficiency of office buildings of a larger portion of the stock will be necessary. 32% and 23% of offices with known EPC ratings in Italy and Ireland respectively are at risk of obsolescence in 2030, providing opportunities for value add investors.

Georgia Ferris, European Research Analyst at Savills, comments: "MSCI data shows that European office improvement expenditure has dropped off to only 0.8% of net capital value, one of the lowest levels since the aftermath of the GFC. This type of expenditure may typically cover replacement lighting and air flow systems, for example, light touch refurbishments that can raise a building's EPC label.

"At Savills, we estimate that the average cost of raising an office's EPC rating from D to B is approximately

€500 per sq m. With capital value at risk if an asset becomes non-compliant, increasing improvement expenditure presents an opportunity for investors to futureproof the building."

Elena Lutterkort, Head of Sustainability at Savills France, says: "Both legislative and market drivers for efficient buildings share the requirement to reinvest in existing building stock, the risk of falling behind on the path to 2030, and for legislation to accelerate and move the goalposts in response to known global carbon emission limits should not be underestimated. Mobilising the necessary investment will be challenging as the demand for such investment grows and sustainability-linked financing criteria are strengthened."

James Burke, Director, European Capital Markets & Global Cross Border Investment at Savills, says: "In addition to more stringent legislation coming into effect across Europe, investors also face pressure from occupiers who are prioritising ESG-compliant buildings and are prepared to pay a premium for the best in class space. Maintaining a positive reputation and attracting the best talent are two contributing factors to corporate ESG strategies."

To read the full report, please click here.