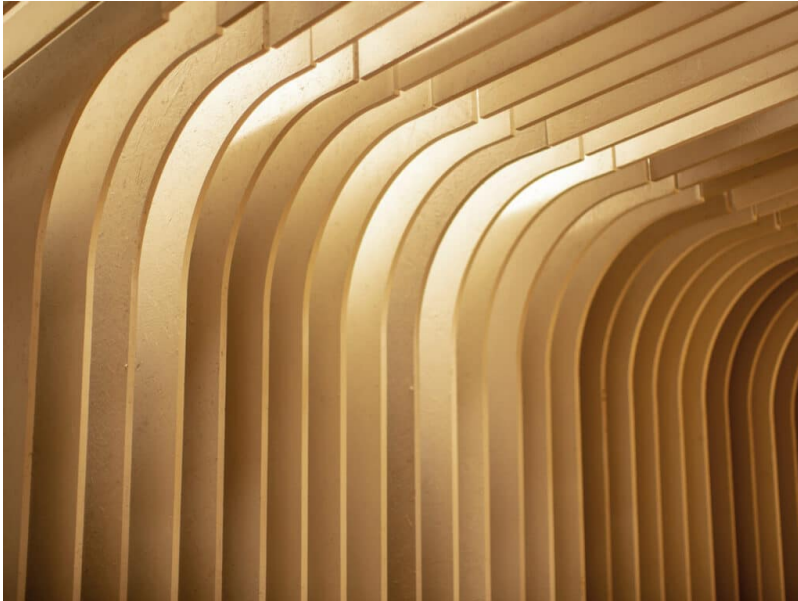


CBRE reports 11.9m sq ft of Energy Inefficient Office Stock Coming to London Market

2 years ago



Up to 11.9 million sq ft of office stock due to be released to central London's market by the end of 2027 has an EPC lower than C – or categorised as energy inefficient – according to new research by CBRE UK.

CBRE estimates around 15.9 million sq ft of Central London office space will be released back into the market by the end of 2027 due to upcoming large lease expiry events. EPC data is available for around 80% of this stock or 12.6 million sq ft. Of this, only 6% is classified as energy efficient with an EPC of A or B while 94% (11.9 million sq ft) has an EPC lower than C, and is therefore categorised as energy inefficient based on Sustainable Finance Disclosure Regulation definitions.

Using proprietary retrofit data, the real estate advisor predicts the cost of upgrading this stock to energy efficient standards could be up to £370 million. This sum does not include unrelated building improvements, and equates to around 9% of this stock's estimated capital value.

CBRE's analysis, based on trends from its new Sustainability index, indicates that if the 11.9m sq ft is not upgraded to higher energy efficiency standards it will experience a sharp fall in capital value. In contrast, we expect upgraded stock to have more resilient capital values. CBRE predicts the £370 million of capital expenditure for upgrading the stock could be offset by more resilient capital values within three years.

Sam Carson, Head of Sustainability Valuation and Advisory Services at CBRE UK said the main reason for this surprisingly short 'payback period' is the rapid erosion of value for inefficient assets.

Even though building upgrades may not immediately pay for themselves in terms of operational savings,

it's likely that on average the renewed occupier and investor interest they bring will result in a stronger investment performance that quickly outweighs upgrade costs. This was evidenced in our recent Sustainability Index report. However, we do acknowledge there will be cases where upgrade costs are unlikely to be recouped and repurposing to other uses may be preferable

Sam Carson, Head of Sustainability, Valuation and Advisory Services, CBRE UK

CBRE's new Sustainability Index, released in November 2023, found energy-efficient office assets recorded stronger investment performance compared to inefficient office assets over the period from Q1 2021 to Q2 2023, with annualised total returns at -1.4% compared to -4.6% for inefficient offices.

Toby Radcliffe, Sustainability Research lead, at CBRE UK added that improving the energy efficiency of Central London's stock would be a key step towards addressing the supply and demand imbalance for high quality space.

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