

Energy Inefficient Commercial Property Assets Report -6% Capital Value Growth in 2023, According to CBRE

1 year ago



Inefficient commercial property assets recorded a fall of -6% in capital value growth in 2023, compared to just -3.8% for efficient assets, according to [CBRE](#)'s latest Sustainability Index report.

The research conducted by CBRE demonstrates a correlation between the energy efficiency of commercial property assets and their investment performance. Total returns over 2023 were 0.8% for efficient assets compared to -1.0% for inefficient assets, while rental value growth was 3.9% for both the efficient and the inefficient sample of properties over this period.

Jennet Siebrits, CBRE's Head of UK Research, said: "2023 saw interest rates plateau and capital value movements become less dramatic than in earlier years covered by the index. Yet inefficient offices saw a greater decline in capital values compared to more efficient offices, which is likely to reflect the impact of the capital expenditure needed to improve the energy efficiency and overall specification of secondary stock to a level that is acceptable to occupiers."

Sam Carson, Head of Sustainability for Valuation and Advisory Services at CBRE UK, added: "This second iteration of the Sustainability Index shows the strong relative performance of efficient office and industrial assets through 2023 as we move into a new phase of the market cycle. Our valuers are seeing sustainability having an influence over new market conditions, even if current trading volumes are light, and the CBRE Sustainability Index provides evidence of this."

Office Sector

Stronger performance for efficient assets was most pronounced in the office sector. Over 2023, total returns for efficient offices were -3.2% compared to -6.5% for the inefficient sample. Capital value growth was -6.6% for efficient offices compared with -10.6% for inefficient assets, while rental value growth was 4.1% for efficient assets and 3.2% for inefficient – indicating a widening performance gap between efficient and inefficient offices during 2023.

Industrial Sector

Energy efficient industrial assets delivered stronger investment returns compared to inefficient industrial assets in 2023, at 5.6% and 4.5% respectively. This was driven by capital growth for the efficient sample of 0.7%, whereas values for inefficient industrial assets fell by 0.1%. However, inefficient industrial assets delivered stronger rental growth at 6.6% compared to 5.6% for efficient assets over the same period. CBRE's wider market data indicates high demand for industrial space relative to supply started to ease in 2023, potentially contributing to the stronger performance of efficient industrial assets. However, energy efficiency does not influence values in the industrial sector to the same degree as the offices sector.

Retail Sector

The retail sector also reported higher returns for energy efficient assets (1). Efficient retail assets reported total returns of 3.1% in 2023, compared to 0.3% for the inefficient sample. Capital values declined over the period, falling 2.8% for efficient assets and 5.5% for inefficient assets. The efficient sample recorded rental growth of 3.1% compared to 2.4% for inefficient.