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Lease markets reach ‘green tipping point’ amid growing focus on carbon commitments

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The next two years will be a critical time for corporate occupiers looking for real estate space that reflect and support their carbon commitments. JLL’s *Green Tipping Point* research finds that one out of every three leases tied to a carbon commitment will expire by then – yet supply of office and industrial space that meets their criteria is lagging across major cities.

In the U.S., Canada, Europe and Australia, average lease terms are seven to 10 years; many leases signed today will collide with the first important checkpoint of halving emissions by 2030. The research reveals, however, that in 21 cities globally, 30% of projected demand for low carbon space will not be met by 2025 and this could even exceed 70% by 2030.

For investors, the impacts of carbon commitments on real estate demand will create a tipping point where investments in low carbon buildings will start to pay dividends. This shift is creating both urgency and opportunity for investors who can improve their building’s carbon credentials and show measurable progress around its ongoing carbon performance.

Variation in supply-demand imbalance

There is marked variation in the level of expected supply-demand imbalance between some of the world’s major cities:

1. In London, one of the most calibrated markets in terms of progressiveness among both occupiers and landlords, low carbon demand is expected to exceed supply by 35% by 2030.

2. This rises to 54% in Paris and 65% in New York, with regulation driving the shift in both these markets.

3. Supply and demand for low carbon space varies not just by city, but also by industry: demand at its greatest in the banking and finance, government and technology sectors.

The green tipping point

JLL research from January 2024 found 50% of UK investors surveyed identified occupier requirements as one of the biggest ESG drivers behind decisions to buy or bid on an asset. Decarbonizing real estate presents a win-win pathway for both owners and occupiers. Owners should look to tenants as partners in decarbonizing their buildings. Doing so can allow owners to better differentiate their asset while reducing future compliance and operating costs.

Guy Grainger, Global Head of Sustainability Services and ESG, JLL, said: “Time is of the essence for the real estate industry. This supply demand imbalance indicates that investors are under-estimating the value creation opportunity. This is a time to use leading indicators rather than lagging indicators. We are in a new world where inaction over decarbonization will see investments fall into economic obsolescence in the coming years. While for real estate tenants, this growing need to show progress against carbon commitments will lead to price friction and a race for low carbon buildings.”