



Green Premium:

The Commercial Value of Sustainability in Grade A Offices

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Undertaken in partnership with the Business and Sustainability MSc at University College London (UCL), this research paper examines how sustainability certifications and regulations are impacting value in the UK's commercial real estate market.

The principal author of this work is Jessie Shaw. The work was completed for their Business and Sustainability Capstone Project (under the supervision of Dr Samuel Tang), which was part of their degree studies on the Business and Sustainability MSc at UCL.

The effects of climate change are becoming increasingly evident, with rising global temperatures, more frequent severe weather events, and accelerating sea-level rise being felt globally.

The built environment plays a major role, with the UK Green Building Council estimating that it contributes around a quarter of the total emissions in the UK. Recognising the impact of existing commercial office buildings on built environment emissions is essential to accelerating the UK's transition to net zero. Improving the sustainability of the existing office stock presents a considerable opportunity to drive the scale of change needed if the UK is to successfully decarbonise.

This research examines the impact of green certifications, such as **BREEAM** and **LEED**, on grade A office buildings in the UK. These certifications

are crucial in providing frameworks to assess and improve the environmental performance of buildings. Certified buildings are associated with improved energy efficiency and reduced carbon emissions, as well as contributing to social sustainability through enhanced working conditions and supporting employee well-being. While these originated as voluntary guidelines, they have evolved to influence regulatory measures (notably **MEES**) and market demands.

Through surveys and interviews of industry professionals, we have identified **five core factors** influencing decision making: **regulation, flight to quality, the 'greenium', cost, and data sharing/knowledge gaps**. These act as both enablers and barriers to suitability, and shape how various market participants engage with green certifications. We conclude with recommendations to accelerate the transition to sustainable practices.

Glossary

BREEAM

Building Research Establishment Environmental Assessment Methodology, or BREEAM, is a globally recognised sustainability assessment and certification scheme for buildings. It evaluates a building's performance in areas such as energy use, water consumption, waste management, pollution, and ecology.

LEED

Leadership in Energy and Environmental Design, or LEED, is a green building certification system developed by the U.S. Green Building Council (USGBC). It provides a framework for evaluating the environmental performance of buildings and awards points for achieving various sustainability goals.



Core Factors

Core Factor 1:

Regulation

Regulation has emerged as a significant external force shaping sustainability in commercial real estate, laying the foundations for potential industry-wide transformation. It is increasingly influencing market behaviour and decision making, often driving engagement with green certifications and fostering a more competitive and energy-efficient sector.

When surveyed, industry professionals largely agreed that external factors to their business (such as market conditions and regulations) influenced their adoption of sustainable practices. 70% of respondents said that they either strongly agreed or agreed with this sentiment.

Several interviewees highlighted the impact of the UK's Minimum Energy Efficiency Standards (MEES) and EPCs in speeding up the transformation of the UK's commercial office stock. The risk of obsolescence for non-compliant properties serves as a powerful motivator for landlords. One investor even stated that EPCs are the first

thing they ask about when presented with an office investment opportunity.

The introduction of EPCs is largely considered to have driven measurable improvements in the energy efficiency of buildings. Tightening of EPC requirements from 2018 has established clear compliance standards that reduce energy consumption and carbon emissions.

Those taking the lead on sustainable upgrades and construction are more likely to remain compliant as regulations tighten. This is mirrored in our survey data, where 95% of respondents said that they strongly agreed or agreed (representing the most conclusive positive response in the survey) that sustainability initiatives are essential for future-proofing commercial properties. Of this, 55% strongly agreed and 40% agreed.

However, interviewees cited the complexity and inconsistency of

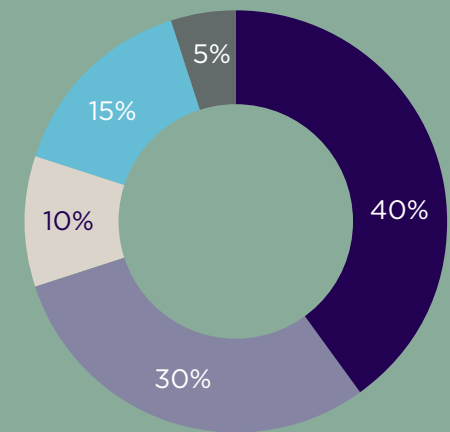
regulatory frameworks as a constraint. Several interviewees expressed concerns about the long-term impact on property values of continuously evolving regulations. One stated that "if you have something that in 2026 is best-in-class, by 2030 it might not be". There are further fears around the accuracy of EPCs, as ratings can vary due to differences in calculation methods and assumptions. Both pose risks to the success of property transformation initiatives.

"The risk of obsolescence for non-compliant properties serves as a powerful motivator for landlords"

Figure 1:

Survey responses to the statement: *"I believe that external factors to my business (such as market conditions and regulations) influence my adoption of sustainable practices."*

■ Strongly agree
■ Agree
■ Neutral
■ Disagree
■ Strongly disagree





“Businesses are increasingly aware of sustainability’s impact on brand identity and employee well-being”

Core Factor 2:

Flight to Quality

The concept of “flight to quality” is a key trend in commercial real estate, driven by businesses seeking higher-quality, sustainable spaces to attract talent and meet regulatory demands. This trend has intensified post-pandemic, with tenants prioritising sustainability and operational performance, making these assets more attractive to investors.

Interviews revealed that “flight to quality” is a critical factor in decision-making, particularly post-pandemic. Businesses are increasingly aware of sustainability’s impact on brand identity and employee well-being. Survey responses confirm this trend, with 50% of respondents strongly agreeing that green

credentials are essential for attracting and retaining tenants, and another 45% agreeing. The concept of “flight to quality” is reshaping the market, creating a clear divide between high-quality, sustainable buildings and those that fail to meet modern standards.

This is partly about reputation, with one interviewee highlighting that seeking better quality office space (often represented by green credentials) reflects on the ambitions of the business and the brand. Others noted that there’s a shift in focus towards buildings that perform well for its staff and its image, emphasising that staff wellbeing is also an important factor.

Core Factor 3:

Greenium

Green credentials are key differentiators between office buildings, providing them with a competitive edge and attracting rental premiums. This is interlinked with the flight to quality, as increased demand for sustainable grade A space (and the importance of green credentials in identifying these) together with a shortage in this space has pushed prices up for these assets.

Investors expressed a shared desire to benefit from the greenium. One investor noted that “there’s an economic point to sustainable investing, that tenants are more attracted to a building that is EPC A or B rated”. As such, investors highlighted the value of the greenium, in fuelling investment decision-making. Only one person

surveyed gave a ‘neutral’ response to the statement “Implementing sustainable measures positively impacts the financial value of commercial properties”, and no one said they disagreed, indicating a strong belief in the economic benefits of sustainable assets.

This acts as a critical incentive for market participants to engage with improving the sustainability and green certifications of commercial property. In turn, this further drives the growth of a binary market, which sees the greenium and commitment to sustainable practices as mutually reinforcing.

However, only 5% strongly agreed that they felt confident in overcoming obstacles and challenges in

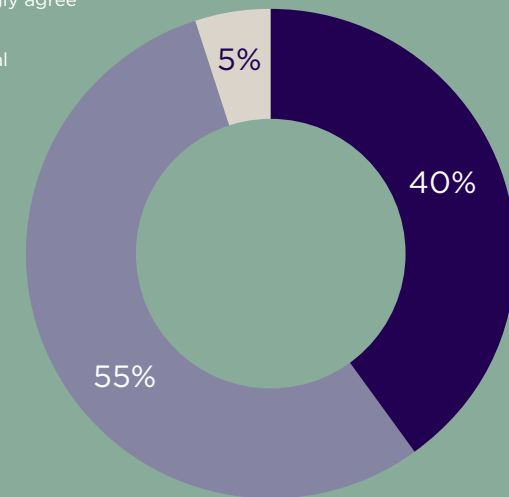
“while financial incentives of sustainability are clear, the path to achieving these benefits is less certain for various stakeholders”

the integration of ESG factors and green credentials into their properties. Another 55% agreed with the sentiment, with the remaining either neutral or disagreeing. This suggests that while financial incentives of sustainability are clear, the path to achieving these benefits is less certain for various stakeholders.

Figure 2:

Survey responses to the statement: *“Implementing sustainable measures positively impacts the financial value of commercial properties.”*

■ Strongly agree
■ Agree
■ Neutral



Core Factor 4:

Cost

The expense of retrofitting offices to meet green certification standards presents a significant challenge. Stakeholders are navigating a balance between the upfront costs and the prospect of higher future returns in defining the financial viability of green construction and retrofit projects.

One investor's comments underline this, stating that they are "increasingly looking at things from a sustainability perspective, but also how much it costs". Both landlords and investors highlighted that while rents for best-in-class assets are rising, so are construction costs. Some commented that it is important to take a long-term view, as deploying capital now is vital for guaranteeing income growth.

Yet, access to resources can be a significant obstacle, particularly for smaller-scale landlords who may not have the necessary technical expertise or funding to upgrade their assets. Financial barriers to sustainability are compounded by uncertainty surrounding future regulations.

The findings revealed stakeholders as reluctant to invest heavily in sustainability upgrades, where investors and landlords are faced with the challenge of determining if investments will remain viable in the face of new regulatory changes. Often referred to as "regulation inflation", investors may feel pressure to focus their resources on compliance rather than innovation.

Core Factor 5:

Data Sharing and Knowledge Gap

The lack of effective data sharing and a pervasive knowledge gap on sustainability across the industry presents a multifaceted challenge. Many interviewees acknowledged that the industry is still grappling with how best to integrate sustainable initiatives into day-to-day practices. A lack of a unified approach to sustainability has contributed to, to quote one interviewee, "uncertainty about what sustainability is", particularly in its implementation at a practical level.

Interviews further revealed that a lack of data understanding hinders informed decision-making. One investor identified "the biggest challenge is data collection... we need

to actually understand how our occupiers use energy, and traditionally that's been difficult to determine". Some interviewees have implemented measures to tackle this, with investors and landlords noting that they are increasingly including data sharing into leases with explicit clauses requiring occupiers to share data. However, they also cited that many tenants have been reluctant to cooperate. And so, despite some progress, there remains a significant gap in the quality and quantity of data being shared, which hinders the ability of landlords to make data-driven decisions about sustainability.

A pilot version of the UK Net Zero Carbon Buildings Standard (NZCBS) was released in September 2024

and offers a promising solution. Created collaboratively by leading industry organisations and players, it is a free-to-access technical standard that aims to provide consistency and transparency through the standardisation of carbon and energy reporting. Crucially, the Standard places significant importance on measured, in-use performance data to ensure that all stakeholders operate from a shared understanding of what it means to achieve and maintain net zero carbon status. By driving adoption and collaboration across the sector, it could play a vital role in overcoming long-standing barriers to sustainability integration.

A modern office interior with large glass windows, people working at tables, and a potted plant in the foreground. The scene is brightly lit, suggesting a sunny day. The office has a clean, minimalist aesthetic with white walls and modern furniture. The large windows offer a view of lush green trees outside. In the foreground, a large potted plant with broad leaves is visible. The overall atmosphere is professional and bright.

Recommendations & Conclusions

Short-term:

Enhanced knowledge sharing and training

To address the need for better data sharing and to close the sustainability knowledge gap in commercial real estate, clear training programmes should be developed. Training programmes should emphasise best practice and encourage collaboration and knowledge-sharing initiatives between organisations across the industry. Development of workshops, webinars, and industry partnerships would effectively foster communication and learning among stakeholders. This would also help create spaces for intergenerational exchanges, which are important to bring different perspectives and knowledge.

Partnerships between educational institutions and industry could help

achieve this. Training and certification programmes for industry professionals by academics and sustainability experts would ensure industry professionals stay up to date with critical sustainability issues. Currently, sustainability is often considered to be a lower priority in professional training,

“new skills and innovative thinking are increasingly necessary throughout a professional’s career”

but given the evolving nature of sustainability, new skills and innovative thinking are increasingly necessary throughout a professional’s career

Potential challenges, such as cost and the need to continuously update content, can be overcome by exploring alternative means of learning. For instance, mentorship initiatives, sustainability-focused CPD (Continuing Professional Development) credits, and industry-wide events like workshops and conferences, offer accessible and scalable options. Learning content should be tailored to various professional experience levels, as well as follow-up mechanisms, such as shared resources, recorded sessions, and networking groups.

Medium-term:

Financial incentives and support for upgrades

Introducing targeted financial support programmes from financial institutions with considerable engagement with the UK’s commercial market would aid the sustainable transformation of offices. These might include green loans which provide favourable terms to incentivise sustainability-focused upgrades. Additionally, grants or tax incentives aimed at smaller property owners could alleviate the upfront costs of implementing energy-efficient technologies and obtaining green certifications.

This approach is mutually beneficial. For financial institutions, offering green loans or similar

incentives provides an opportunity to tap into a growing market demand for sustainable finance, enhancing portfolios of green investments and contributing to the institution’s own corporate social responsibility goals. For market participants, especially smaller landlords, this would help in overcoming challenges associated with high upfront costs and the perceived financial risks of investing in sustainability. This would then better position them to invest in green certifications, such as BREEAM or LEED, and energy-efficient technologies that would otherwise be cost-prohibitive.



Long-term:

Regulatory clarity and standardisation

Transforming the UK's real estate market will require standardised sustainability regulations, including the improved harmonisation of green certifications. Furthermore, ensuring that frameworks, such as the MEES, and other carbon reduction targets, are communicated effectively to all market participants will be critical for driving engagement and compliance.

In turn, property owners, investors, and developers will increasingly recognise the importance of certifications in meeting both regulatory and disclosure standards. An alignment between certification schemes and regulation will help streamline compliance efforts, making

it clear how certifications contribute to a building's long-term marketability and legal standing under the UK's sustainability goals.

This could involve partnerships between key organisations and professional bodies to inform certification frameworks and guidelines. Likewise, collaborating with policymakers could have a significant impact by providing certainty and driving widespread adoption of sustainable practice. By fostering strong government-industry partnerships, regulations can support both environmental objectives and the long-term growth of the sector.

“An alignment between certification schemes and regulation will help **streamline compliance efforts**”



Summary

& conclusions

- **Regulatory influence:** Regulations play a crucial role in shaping sustainability practices in commercial real estate, driving market behaviour towards more energy-efficient and sustainable buildings. Yet, the complexity and inconsistency of regulatory frameworks can also act as a constraint and pose risks to the success of property transformation initiatives. Stakeholders may be reluctant to invest heavily in sustainability upgrades, due to the challenge of determining if investments will remain viable in the face of new regulatory changes. Often referred to as “regulation inflation”, investors may feel pressure to focus their resources on compliance rather than innovation.
- **Economic Incentives:** The concept of “greenium”, interlinked with the flight to quality, highlights the economic benefits of sustainable buildings, with green credentials attracting rental premiums and providing a competitive edge. However, this comes with an initial (or perhaps ongoing) capital expenditure.
- **Cost of investment:** While rents for best-in-class assets are rising, so are construction costs. It is important to take a long-term view, as deploying capital now is vital for guaranteeing income growth. Access to resources can be a significant obstacle, particularly for smaller-scale landlords.

- **Unified approach:**
A lack of a unified approach to sustainability has contributed to uncertainty about what sustainability is, particularly in its implementation at a practical level.
- **A data and knowledge gap:**
Effective data and knowledge sharing is lacking, hindering informed decision-making and the integration of sustainable initiatives into day-to-day practices. The biggest challenge is understanding how our occupiers use energy. The increased inclusion of data sharing clauses in leases is a positive, although many tenants have been reluctant. The UK Net Zero Carbon Buildings Standard (NZCBS) offers a promising solution to provide consistency and transparency through the standardisation of carbon and energy reporting.

- **Recommendations for Future:**
As such, the transition to sustainable practices can be supported and accelerated by enhanced knowledge sharing, financial incentives, and regulatory clarity. Respectively, these can be seen as short-, medium-, and long-term objectives.

“While regulatory frameworks are essential in promoting greener practices, their inconsistency and evolving nature can create uncertainty for stakeholders.”

In conclusion, the research highlights the multifaceted nature of the investing in sustainability projects for grade A offices, as both a driver of value and a source of complexity. While regulatory frameworks are essential in promoting

greener practices, their inconsistency and evolving nature can create uncertainty for stakeholders. Similarly, while economic incentives such as rental premiums are a strong motivator, they come with significant upfront costs.

It is clear that a long-term perspective is essential for successful sustainability transitions. Moreover, the absence of a unified approach and the data and knowledge gap hinder the seamless integration of sustainability into day-to-day practices. The growing emphasis on data sharing represents a step in the right direction.

The future success of the transition to sustainable real estate will rely on a combination of enhanced knowledge sharing, financial support, and regulatory certainty to enable both the short- and long-term ambitions of the industry.

If you have any questions or comments about the information in this report, please get in touch.

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If you have any questions about the Business and Sustainability MSc at UCL please get in touch with BSEER Student Queries: bseer-studentqueries@ucl.ac.uk

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