BE NEWS

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THE ART OF COMBINING VALUE WITH VALUES

Industry leaders joined *BE News* for a MIPIM roundtable event, sponsored by Domna, on what needs to be done to ensure the ESG agenda gathers momentum rather than loses it

INDUSTRY GUESTS:

Nicolo Benzi, Investment Director, Patron Capital

James Blakey, Planning Director, Moda

Celia Harrison, Investment Director, Bridges Fund Management

Samantha Kempe, Co-Founder and Chief Investment Officer, IMMO

John Long, Director, igloo

Anna Moore, Co-Founder & Chief Executive Officer, Domna

Sanjeev Patel, Managing Director, PPP Capital

Charlotte Ward, Partner, Real Estate, DWF

Rob West, Managing Partner, Clearbell

Liz Hamson, Editor-in-Chief, *BE News* (chair)

For some in the industry, sustainability has fallen down the agenda in recent months, a trend that has been accelerated by US president Donald Trump's return to power and decision to withdraw from the Paris Agreement.

However, for others, ESG continues to grow in importance as sustainability credentials become a 'need to have' rather than 'nice to have'.

The upshot is the industry has reached a critical juncture when it comes to ESG, and the only way it can take the right path forward is by combining commercial value with sustainability values.

During a highly topical c-suite debate sponsored by residential retrofit specialist Domna and hosted by law firm DWF at MIPIM in Cannes, a group of leading experts from across the commercial real estate and housing industries explored what that path looks like and assessed what needs to be done to ensure the ESG agenda gathers rather than loses momentum in 2025 and beyond.

QUESTION: What impact has Donald Trump's return to power had on the real estate market's commitment to net zero and sustainability? What are you seeing and hearing on the ground? Have a lot of businesses quietly mothballed their ESG strategies?

PATEL: It hasn't affected us as a business. We have our goals and we need to get there. Whether the US is for or against ESG and DE&I, who knows, but it won't affect the trajectory in the UK. The trajectory is there and you need to be on the journey.

WEST: I like to think that Trump will have little to no impact in the UK, but we don't know for sure just yet. A lot of what we do is emphasising not just sustainability credentials, but the cost savings.

We've developed logistics schemes and it's £2/sq ft cheaper to occupy our units in terms of energy than it is to take an old unit. So, it's emphasising that side of things and the cost, as much as the sustainability angle. It's good for your wallet and it's good for the planet.

MOORE: Just to underscore that point, if we are saving a tenant, on average, 40% off their energy bill, that leads to a more stable, longer-term tenancy and a higher rent reposition. The jury is in on the brown discount/green premium for the lowest EPC properties. We just did a lot of work in the Midlands and we saw a 67% valuation differential after repositioning EPC F and G rated units.

So, that pays for itself. But there's £2tn of assets that are below C in that D and E category that will probably have the same dynamic as MEES ratchets up, so we're trying to get ahead of that.

BENZI: What we've seen is ESG now is both important for tenants and for the pension fund that will ultimately acquire the asset. So, when you're looking at your exit pool of buyers, you always want to be compliant with the ESG parameters. If you don't comply, that might have a negative impact.


Sanjeev Patel


Samantha Kempe

"I like to think that Trump will have little to no impact in the UK, but we don't know for sure just yet"

Rob West

KEMPE: In terms of the capital providers, what we're seeing at least is there's a bit of a bifurcation of splits, whether they're US LPs or European LPs.

Fortunately at the moment, the European LPs are still very much championing ESG, but we see US investors changing their tune in terms of how much ESG they want new products to lead with.

For us in particular, we're looking to buy existing stock that we would be decarbonising and retrofitting. So, as long as Europe stays firm from a regulatory perspective, I think the demand and the


John Long


Celia Harrison


James Blakey

weight of capital won't necessarily be driving the ESG agenda as much, but the regulatory landscape will still maintain pace.

QUESTION: How high up the agenda is sustainability for your businesses right now and what impact, if any, has the new Labour government had on your strategies?

LONG: We're still seeing huge demand for responsible investment from our customers, from our investors and from our local authority partners. Every scheme igloo does is in some form a joint venture with a local authority partner. So, we haven't seen any loss of appetite for investment and development that achieves good social impact. More than ever, I think the Labour government's fully behind that.

HARRISON: We are very much believers that you can unlock more value and higher returns by delivering impact. If you go backwards on sustainability, I think it might damage you in the medium to long term.

However, the challenge is always to find and implement sustainability initiatives that will add value, or at least be cost-neutral. We will never propose something that is going to take away value or reduce returns

BLAKEY: From a Moda perspective, we've got two audiences really. One's our funders, and they're very much focused on ESG. Our second audience is the residents themselves. The brand that sits around our sustainability story is very powerful and very strong, so they demand that from us and we're kind of known for that.

QUESTION: In the early 2010s, Blackstone bought billions of dollars' worth of PRS in non-performing loans for the retrofit opportunity. Why haven't we seen that happen in the UK? Is there scope for it to happen?

WEST: We own a property trading business that typically buys from residential and retirement home developers at a discount, because we're doing a part exchange deal.

> ***The brand that sits around our sustainability story is very powerful"***
>
> *James Blakey*

Nicolo Benzi

We're looking at pivoting that model, that infrastructure we have, into a rental model.

This is a significant opportunity given the existing single family housing platform that we own.

There is so much demand for affordable, sustainable, rental family housing around the country and there's so much investor demand as well. So, you've got that momentum.

It's a question of then getting the dots to join up. And actually you can deal with the granularity, because, yes, it is management intensive, but you've got sticky tenants. Families are going to sign up for a long time, so you haven't got that churn.

KEMPE: On the granularity point, that is where the volume of the residential market is and where the opportunity is. Currently, only 4% of European residential investment transactions annually are institutional capital.

This means institutions are ignoring 96% of what is actually the biggest asset class in the world, and that's because they don't know how to access and aggregate more granular stock.

This is where technology is really changing the game because if you use very traditional manual processes, it's far too inefficient to be able to go around and source, underwrite, manage and retrofit that stock. The technology that we've developed removes a lot of those inefficiencies and means you are able to unlock that asset class.

QUESTION: How big is the retrofit opportunity in the UK?

MOORE: You've got four million UK PRS assets that are below EPC C that trade at a discount today. Some of those trade at as much as a 20% to 40% discount to the rest of the market, and 4% of that is institutionally owned. So, you've got four million assets that could gain a 20% to 40% increase on their valuation.

When we work with people who are starting to acquire some of that stock, we see incredible returns through the stabilisation phase and it is a value-add strategy.

You do have to be comfortable with the granularity and I think that's just a matter of people getting more runs on the board, because the value creation story is super clear.

I think that valuation gap will close as more people invest in that market, so it's a bit time bound, but it's a pretty good market.

BENZI: We've been leading on the student accommodation cycle, where we felt there was an affordability issue for students, especially with new developments. So, instead of developing new assets, three and a half years ago, we started investing in existing assets.

Charlotte Ward

Typically, we looked at first generation assets, which had poor bedroom to bathroom ratios and poor amenity space, and effectively what we did is we improved the bathroom to bedroom ratio, we improved the EPC and ESG ratings by putting in solar panels and we managed to achieve a sensible double digit uplift in rent. However, we were still able to maintain affordable rents.

QUESTION: Where do you think the single greatest opportunity to combine value with values is? What is the first step people should take and how confident are you that in the next few years the ESG agenda will continue to gather momentum, rather than lose it?

PATEL: Our market is at the smaller end of the scale and I do think there is an opportunity to take smaller units and make these improvements and aggregate. That's the market we sit in and for us it's a good market.

In terms of the first step in combining value with values, it's about finances. Look at the numbers. The numbers speak for themselves and I don't believe the business case has gone. I'm optimistic for the future,

> ***The biggest opportunity is to present homes to customers that are healthier to live in"***
>
> *John Long*

but I think you have to take a longer time frame because you have to ride out any cycles and we're still in a crappy market at the moment.

HARRISON: I'm very optimistic about the future. We're a fund that's been focused on the value of sustainability for 15 years now and we've got a track record that shows you can get a really good financial return and drive a really good social and environmental impact.

LONG: I actually think the biggest opportunity is to present homes to customers that are healthier to live in. You should be able to buy an igloo home and say that if you live in this home you will live longer, because we've thought about the experience and the impact on health of living there.

I think the first step in any of this is purpose. There are going to be headwinds and challenges, and we've been around long enough to see those, but I think what has to drive your first step is your own personal purpose and why you're doing what you're doing. What gets you out of bed? Why do you persevere with a scheme that's going to take you 15 years? Because it's the right thing to do.

WARD: I think the biggest opportunity is aggregation and retrofitting existing housing stock. The other big opportunity is in the

Anna Moore

Rob West

office sector where you've got occupiers who want super prime office space and it's got to be sustainable.

In the UK, we have a huge number of existing office business that are going to be a problem when the EPC regulations change.

So, I think there is going to be a massive opportunity, whether that's retrofitting those offices into modern, sustainable stock, or repurposing those buildings into another use such as residential.

Everyone realises we have to do something about the climate crisis and we haven't seen any change in investor appetite in relation to ESG, so I am optimistic for the future.

WEST: I think the biggest opportunity is putting PV panels on the roofs of sheds, because we can make a positive contribution and it means we can make more power. So that's an area where real estate can contribute to the solution to the climate crisis.

The first step is you have to work out what makes money, because we're in the private sector. We all need to make a profit in order to make a difference and fulfill a purpose.

In terms of whether ESG is going to be more important, I think as the urgency of the climate crisis becomes ever more apparent, it will become even more of a commercial driver.

So, I'm not concerned about the noise in the US in the short term, because I think the direction of travel is so imperative. I'm pessimistic about the climate, but I'm optimistic for the solution.

MOORE: I would say residential retrofit is the biggest opportunity. I'm optimistic and part of that is because at MIPIM last year I was having conversations with people about 'is there a green premium and what does it look like?'

The jury is in on that topic and now we're having conversations about 'how do we access it and unlock that?' That's already a big leap forward. For me, the first step in terms of combining value with values is just get going. I think that institutions risk umming and ahhing and therefore missing the market.

We put together a 200-unit portfolio for somebody and 20% of the units sold while they were thinking it over, because we're starting to see smaller, regional investors hoovering this stuff up. It's a massive opportunity, but it's a closing window. □

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