Exclusive article by Peter Bill; only available to clients of MüAM

Peter Bill is the UK's foremost real estate journalist relating to planet property. Peter is a former editor of Estates Gazette, as well as a regular contributor to several other publications and newspapers, and has written a number of widely acclaimed and referenced books.

Green costs…and costs…and costs

'Beautifully crafted wall-mounted oak plaques' denoting the BREEAM rating of your building are available from the Building Research Establishment (BRE) in Watford. They come in two sizes: 340mm by 180mm (£250 + VAT) or, 420mm by 220mm (£300 + VAT). An ECOROK version (don't ask) is manufactured from 'post-consumer, post construction' glass. Prices on application. The 550-strong Building Research Establishment has long been a 'profit for purpose' enterprise. Indeed. Income from BREEAM activities is rising purposefully. Up from £11.5 million in 2020/21 to £15.9 million in 2021/22, contributing 25% of the establishment's income.

The BRE Environmental Assessment Method (BREEAM) is the most venerable badge of 'greenness', having been devised in 1990. Variants are used in dozens of countries. The French introduced HQE in 1996; the American's LEED in 2000. CASBEE came from Japan a year later. In 2002 the Australians pinned their faith on Greenstar. Then came TGBRS in India, DGNB in Germany, PromiseE in Finland, Protocollo Itaca in Italy, SGB in Singapore and GBAS in China. I am not going to spell out the acronyms. All you need to know is that funders will insist you pin one of them on any new development.

Plaques are but a final few pennies on a stack of costs needed to prove sustainability. Assessment criteria vary. Each set of initials gives differing weights to energy use, pollution, wellbeing and the **'greenness'**. A whole sub-set of the design and development world is now devoted to the frankly dodgy counting of the carbon embodied in the building's materials. There is a 'greener than thou' race underway. If you think 'Carbon Neutral' will do the trick, think again. Some developers are drawing up plans for 'Carbon Positive' office towers. Virtue signalling is mandatory. Scepticism is a Salem witch-level sin.

There is of course a genuine desire among developers not to be even partly responsible for heating the globe. There is also the genuine reality that new buildings which don't get a high pass from BREEAM ('Excellent') or LEED ('Platinum') or six 'Green Stars' are effectively unlettable. A situation that has led to a 'greener than thou' race, egged on by zealots, who want 'Retrofit not Rebuild' to be the guiding philosophy. This undermines the central pillar of development. Guessing how many more square feet of net lettable space you can squeeze on the site. Retrofit, well, some: Rebuilt - the planning sky is the limit.

The current *Casus Belli* is the appeal by Marks & Spencer to tear down their HQ on Oxford Street in Central London. Conservationists are demanding retrofit. The retailer wants to rebuild. A decision by the Levelling Up Secretary, Michael Gove, is expected in July. Much is at stake. The existing Gross Internal Area (GIA) is 387,500 sq. ft. (36,000 m^2). The new-build GIA is 656,600 sq. ft. (61,000 m^2). Retail space is squeezed to 161,460 sq. ft. (15,000 m^2), allowing space for 495,140 sq. ft. (46,000 m^2) of offices. The latter contains 334,000 sq. ft. (31,030 m^2) of net lettable space, worth £400 million (assume cap rate of 5%) at a low-ball rent of £60 sq. ft. Lop off £12 million for every 10,000 sq. ft. that won't fit into a refurb.

A Very Big Idea

Floating tantalisingly out of grasp lies a billion-dollar opportunity to invest in UK residential property. At least, that was the inchoate feeling at the end of a lunch earlier this month with a small group of Housing Association and Build to Rent chieftains. I had presented a modest plan to boost social housing numbers. But the feeling round the table was that the housing crisis bedevilling British politics needs more radical private capital intervention.

My idea comes from an article that was published in February by the Housing Finance Institute and local authority think tank, Localis. The paper, written with co-author Jackie Sadek, can be found on www. Localis.org.uk, the title: Public Rental Homes: fresh perspectives. The fresh perspective: seeing Public Rental Homes (PRH) that can be let at half market rents as an opportunity for profit and not, as now, a burdensome drag on viability.

The bones of the idea is that local authorities act as land finder and permission giver. The developer acts as builder and giver-back of as many PRH units as the appraisal can stand, selling the balance to private buyers. The council gets to push a plan that promises to build right-sized homes to suit the pockets of those on the waiting list. The poorest 6.6 million households can afford no more than half-market rents. The developer takes 100% of the development risk - and 100% of the profit. The plan was greeted with polite nods.

What followed was a more animated discussion. A dam filled with overseas capital willing to spill into UK real estate remains full. The mechanism that sprang the Private Rental Sector (PRS) to life ten years ago was led by private capital seeking profit. Not by politicians seeking – and never finding – an answer to the housing crisis. Is there a prospect that someone can carve a channel from said dam and into Public Rental Housing (PRH)? After all, the income is copper bottomed by the housing benefit payments made to those who can't pay.

I honestly don't think so. Politicians, artfully advised by housebuilders, are spellbound by the magical thought that, 'if planning was made easier' 300,000 homes a year would appear. That said, it is sinking in that the only way to get near what is a politically manufactured target is provide 50,000 homes for the poorest quarter of society. If the state could be persuaded to provide the land free of 'hope value' - at current use value - then negotiating the percentage of PRH homes on a site-by-site basis becomes a possibility.

The government last month published a consultation paper signalling backing for legislation to allow land to be bought at existing use value when social housing is part of the mix. Eternal optimists will even find an amendment (412D) to Clause 175 of the Levelling Up and Regeneration Bill (LURB) currently grinding its way through Parliament. Hope glimmers. But don't hold out too much hope for a sighting of what could be A Very Big Idea.

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