

thinking  
— Real Estate

ISSUE NINE

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Welcome to the ninth edition of Thinking Real Estate, where we share thoughts and ideas on topics across the real estate industry.

- The shift towards social value in real estate – It's been three years since we launched our first report on social value and its impact on development and 12 months since the second, but how much has changed?
- Balancing tougher regulations with housing delivery – Since the Grenfell disaster, building regulations and the relationship between social landlords and their tenants have come under scrutiny. There are recommendations for changes to regulation. So, what might those changes be and how might they shape the market?
- Building connections: Could intergenerational living solve loneliness? – Loneliness affects mental and physical health. Research shows it can be as damaging to health as smoking 15 cigarettes a day. As the number of people suffering from loneliness rises, it puts a strain on health and social care resources. Could intergenerational living be the answer?
- Sustainable tourism: Why it makes sense to be greener – The tourism industry is an important part of the UK economy and directly contributes £70 billion every year but that doesn't exclude it from meeting the 2050 net zero carbon emission target. What changes does the tourism industry need to make to reach our sustainability targets?
- Why it might be time to consider green finance – Over the past few years, banks have come under scrutiny and pressure to support the transition to net zero carbon. So far incentives have been more carrot than stick and this is already having an impact but what else can be done?

We hope you're enjoying Thinking Real Estate. If you would like to continue the conversation about any of these topics please get in touch with us directly at [thinkingrealestate@trowers.com](mailto:thinkingrealestate@trowers.com) and continue the debate with us on twitter [@Trowers](https://twitter.com/Trowers).

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# Progress to prosperity, the shift towards social value in real estate

It's been three years since Trowers & Hamlins launched its first report on social value and its impact on development and 12 months since the second, but how much has changed?



One of the issues that sparked the research was the inability to demonstrate, in a meaningful way, the return on investment that “placemaking” or social investment has for real estate. What was clear was the need to make social impact more of an integral part of the valuation process.

There has long been a requirement for councils to demonstrate best value before selling land or entering into development agreements but it needs to go further than that. Being able to more accurately demonstrate the correlation between social value and financial returns is not far off thanks to technology and data. If this can help change the valuation process then it will be a game-changer, but it is a big piece of work. But that doesn't mean progress hasn't been made.

“

**How you create a place, how you create social value, is vitally important to creating economic viability and the dialogue around social value has moved on since our first report. It's no longer a taboo subject, it's not regarded as airy-fairy, it's recognised as a real thing,”** says Sara Bailey, Head of Real Estate at Trowers & Hamlin.

To help move the dial further precedence needs to be set, evidence gathered and some developers and tech companies are working on this. For example, U+I has been working with RealWorth to assess the social impact of its existing projects to demonstrate return on investment.

Arup is also doing a lot of work looking at the ‘total value’ of infrastructure and development in which it is assessing a wider range of benefits to what is traditionally measured. And its work isn't just focused on the UK but globally.

There have also been some high-profile funding deals based on social and environmental impact which require certain social or sustainability targets to be met to access lower borrowing costs. →



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And the interest in software and data solutions is growing. “We have probably seen about six or seven different people in the past few weeks who have tools that they are developing or promoting,” says Bailey.

Aecom’s analytics team is looking at measuring the legacy impact of a project so that social value becomes a formative part of development design and plans (see overleaf).

In the same way that tools for measuring the energy efficiency and wellness of buildings have become widely recognised – BREEAM, for example – it is hoped that tools for measuring social value become the accepted norm. As more evidence is gathered demonstrating a tangible return on investment, this will, no doubt, be a powerful force for change.

The next phase of our work on social impact will explore prosperity in more detail and what it means for the wider community, particularly when you have a successful city centre. It takes more than an injection of cash to create prosperity, you need to determine what makes a particular place economically valuable. For example, what might make a difference to Manchester’s prosperity will be different from Stockport.

With that in mind, we will be travelling the country hosting a series of City Exchange events to explore what makes towns and cities prosperous and how to develop in an inclusive way.



**All this is hopefully leading to a point where social value is regarded as part of the norm not just something that is nice to have,” says Bailey.**



# AECOM ANALYTICS

## A tool for measuring the legacy of a project

Most tools for measuring social value concentrate on skills, training and employment for local people during construction. This is a really good starting point but Aecom has developed a series of design tools which look at the legacy of the project, the value created for the community beyond completion.

The tools use different measures and data to determine 'liveability' based around social, economic and environmental considerations. Social incorporates health, well-being and cultural identity, for example how much open space there is within a 5 to 10-minutes' walk or how many amenities and facilities there are.

Economic measures such as workplace provision, the diversity of that provision and accessibility by public transport together with the availability of cafes, restaurants and other facilities workers like to access. And environmental measures things such as availability of sustainable transport, walking distances to amenities and pollution levels.

The aim according to Eime Tobari Director of Urban Analytics at Aecom is to encourage developers to embed social value into their projects much earlier on. "We will do a baseline analysis then plug in the development to assess how it works for the wider community. The idea is that you start measuring social impact at an early stage rather than waiting until the design is fixed and doing the impact assessment at the end," she says.

If such a data modelling tool is used earlier in the development process, social value considerations could influence the overall design of a scheme and it could also help with stakeholder engagement.

"I think technology will play a part in shifting the mindset [to social value] but we aren't there yet," says Tobari. If those focused on technology can combine their skills and knowledge with those of urban designers then she thinks it will make a big difference.



# BALANCING TOUGHER BUILDING REGULATIONS WITH HOUSING DELIVERY

Since the Grenfell disaster, building regulations and the relationship between social landlords and their tenants have quite rightly come under scrutiny. Among the recommendations made by homeless charity Shelter are strengthening the regulations, better standards for homes and improving engagement with tenants.

The results of the Building a Safer Future consultation and the Social Housing Green Paper are yet to be announced having been delayed by summer recess and subsequent shut down of parliament but it is clear that the existing system is lacking and that things will change. So, what might those changes be and how might they shape the market?

Current Decent Homes Standards are not hugely demanding for landlords and developers. For example, homes are required to be in a reasonable state of repair, thermally efficient and have reasonably modern facilities. However, the minimum standards of safety are complex.

“You need to be a rocket scientist to understand exactly how the categories of hazards work,” says Tonia Secker, Partner at Trowers & Hamlins.



**I would hope, what would come out of this exercise is that there is a more holistic system or standard for what is safe. Having one, more easily understandable set of principles to go to would be a good thing.”**

Aside from a new set of standards to follow, one proposal under the Building a Safer Future consultation, is to have a series of gateway processes with sign off required for each before proceeding onto the next. For example, you wouldn't be able to start on site until the new safety regulator has signed off that the project is safe and, residents can't move in until the construction is also signed off as safe by the regulator. It would impact all new housing developments as well as affordable homes and the refurbishment of existing social homes.

Safety has to come first but more checks and procedures could put undue pressure on local authority budgets and resources which are already stretched. “We would want to know that the system is properly resourced and staffed and each sign off can be turned around within the timescales that we expect, otherwise the construction project will just grind to a halt,” says Katie Saunders, Partner at Trowers & Hamlins.

An unwanted side effect of more regulatory processes could be fewer homes getting built. Meeting housing targets is a Government priority, building safety is equally, but are current resources sufficient to deliver both? If it takes longer to get homes built and there are additional costs it could slow down delivery making housing targets more difficult to meet.

“On the one hand you've got money coming out of the business to meet improved safety standards and on the other hand, you've got the Government saying we need more houses. How do you resolve that tension?” says Secker.

Additional funding from central government may be required to ensure there are appropriate resources in place to manage and monitor new regulations and processes and not slow down housing delivery.

Modular housing may provide a partial solution to ensuring safety and quality standards while delivering at volume. With residential units manufactured off-site in a controlled environment and then assembled on-site, it is easier to monitor where materials have come from and test safety. There is a consistency and speed of development that you don't get with regular house building which could help with meeting housing targets.

However, off-site construction for housing delivery as an industry is still in its infancy and currently can only top-up supply rather than deliver at significant volume. Interest from institutional investors and local authorities might help to make take modular homes more mainstream.

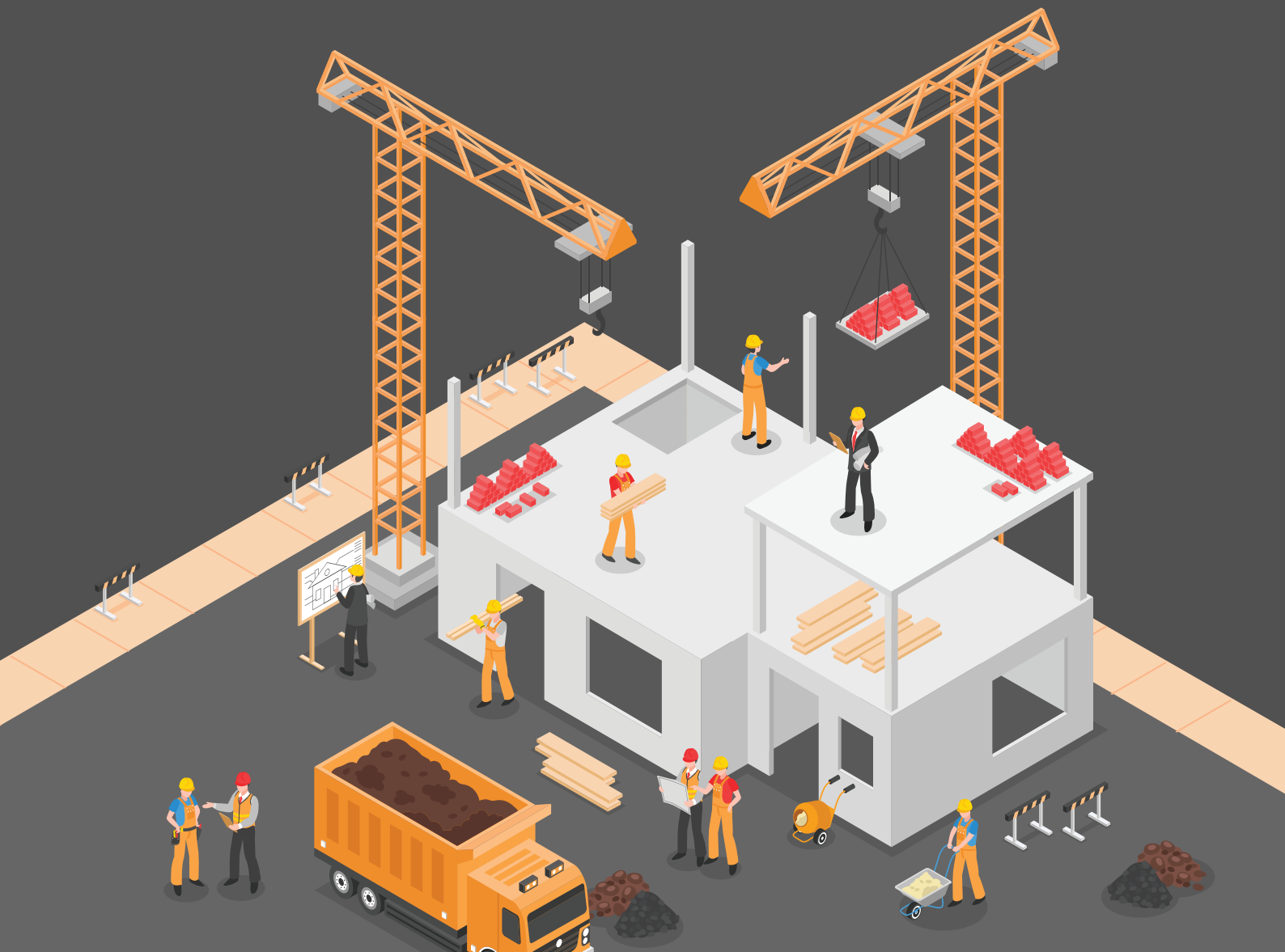




If new stages of process are introduced there is also the question of liability for each stage – who, ultimately, is accountable? The Government stance under the proposed Building a Safer Future consultation is that liability for the long-term safety of the residents should sit with the person who owns the building but that then raises the question as to who the owner is. “Conceptually you would think it ought to be the freeholder, but the freeholder may have no direct continuing association with the building, having granted leases to one or more occupiers, who may themselves have sub-let” says Secker.

It may be easier to apportion responsibility for the different stages of design, planning, construction and occupation to the public sector housing developers and landlords as they are responsible for the whole life cycle of a housing development and may occupy or maintain a whole building. If there is an element of affordable housing as part of an open market residential development or mixed-use it is more complex since there are different tiers of landlords rather than one overall landlord and consequently uncertainty over who takes overall responsibility for safety.

It won't be until the exact nature of the regulatory changes and the process of approval is known that the full impact can be assessed. The results of the Building a Safer Future consultation and the Social Housing Green Paper are expected in the next few months.



# BUILDING CONNECTIONS: COULD INTERGENERATIONAL LIVING SOLVE LONELINESS?

Loneliness affects mental and physical health – research shows it can be as damaging to health as smoking 15 cigarettes a day. As the number of people suffering from loneliness rises it puts a strain on health and social care resources. Could intergenerational living be the answer?

Human connection and relationships are important, adding value to people's lives and helping to build a sense of self-worth.

Building communities and facilitating connections has become an important tool for those working in the built environment from regenerating high streets to co-working and it is becoming important for residential too.

Build to Rent (BTR) developers design communal space to encourage residents to get to know their neighbours. It not only increases the appeal it makes business sense as tenants are more likely to renew their tenancies if they know and socialise with other people in the building. People will stay and will have sense of wellbeing where they feel at home.

The UK's population is ageing – with older people being the part of society most affected by loneliness – but accommodation for older people is still very much siloed into specific types dependent on physical or other health needs. And often limited to specific locations – London currently has only one private retirement village.

Well-designed retirement living includes communal facilities, services and community activities, all of which have a role in improving wellbeing, whether through social interaction or simply physical mobility around a person's home. Such models can play a part in combating loneliness but they might not be attractive for everyone.

They assume that people of a certain age want to live in a certain way. However, empty nesters and downsizers might be looking for a more varied social life. Retirees might not want to live in the country away from family and what's familiar spending their twilight years gardening. Some of this is solved by the increasing range of urban specialist housing and housing with care options for older people. However, even then there will be plenty who want to mix with different generations rather than living solely with their peers.

BTR, frequently located in urban areas and targeted at young professionals, has caught the attention of more people than just those looking for their first, post-university home.



**1.2 million**  
chronically lonely older  
people in the UK



**24% of parents**  
surveyed said they were  
always or often lonely





**There is a growing number of older people who are choosing to move back into city and town centres to take advantage of the lifestyle benefits. This group are increasingly choosing to rent as they find the offering is improving,” says Suzanne Benson, Partner at Trowers & Hamlins.**

That offer includes well designed, maintained and managed BTR schemes which often have a community aspect as a key part of the design.

One BTR concept which is attracting interest is the idea of actively targeting different generations. The Kohab, which is looking for development opportunities, has a model which offers good quality centrally located flats for older people and younger. Everyone has their own flat but the younger tenants pay a discounted rent in return for taking responsibility, organising and participating in activities and events with their older neighbours. They might, for example, help with using smartphones and iPads or run a group activity.

It's an idea which has been trialled with success in the Netherlands with both generations benefitting from the accommodation, its location and the community it creates.

Such models offer a different opportunity for intergenerational living and can fill part of the space between traditional housing, hospitals and care homes for older people. As the care requirement of residents increases though, engineering a truly “age blind” intergenerational living development under a single roof might be problematic. If tenants require different levels of services and amenities then catering adequately for all could push up costs which making it less financially viable for individual developments.

The answer may be found in urban planning, focusing on bespoke facilities for older people as part of a broader community offering rather than on a scheme specific basis.

“The idea is that we could have something that is run by an operator which is focused on providing housing and services to older people whilst at the same time being wrapped into a community and place that offers a whole range of different things for people. This type of model could, in theory, be attractive to anyone,” says Kyle Holling, Partner at Trowers & Hamlins.

Under single ownership, this model has worked well for decades in places such as Bourneville Village in the West Midlands. The community model is to provide accommodation that caters for everyone from young families through to the twilight years with a range of amenities that serve all.

Alternatively, in urban environments where there is already a good level of facilities and services available locally, ensuring that the overarching planning framework is designed inclusively for different generations could be the answer.



**If the general urban landscape is designed for intergenerational living then there may not be a need for it to be designed into specific developments. Here the overall placemaking is important, thinking ahead to future community needs and not being reactive,” says Holling.**

And those needs should include a design which encourages interaction in the same way as the emerging BTR offering but for all generations and on a bigger scale.



Ultimately for the built environment to be used as a means to help combat loneliness, it requires stakeholders to be thinking more broadly about generational needs and wants. High street regeneration is already moving in this direction, primarily out of necessity as high street retail struggles against online shopping. Future urban centres will need to include a greater mix and integration of uses and services.

But as the BTR example demonstrates the market might find its own way towards intergenerational living. Where they take advantage of a wider choice of tenure, different age groups are likely – based on the experience of providers of operational residential models of all kinds – to naturally come together creating new communities and helping to combat loneliness.

If demand from Generation X and Baby Boomers for alternative styles of living rises then the market will no doubt respond. Purpose-built student accommodation and BTR have evolved as sectors over the past 5-10 years from a niche offering to one attracting institutional investment.

“I think intergenerational living in the BTR context is a good thing to be talking about as we look to the next wave of development. Just at the moment the tenure does need to develop a bit further, it needs to find its own feet and take a lead from the market but it has real potential for diversification” concludes Benson.



# SUSTAINABLE TOURISM: WHY IT MAKES BUSINESS SENSE TO BE GREENER

The tourism industry is an important part of the UK economy and directly contributes £70 billion every year but that doesn't exclude it from meeting the 2050 net zero carbon emission target.

Sustainability focused legislation – the existing and what will inevitably be introduced – impacts all businesses but for the tourism sector, it should already be high on the agenda for sound commercial reasons.

The sector needs to make its buildings and operations more sustainable but also needs to consider the wider footprint – including travel, supply chain and impact on the local area.



**It is hard to envisage a truly net zero carbon emissions holiday, but the sector will have to play its part. It's quite a big ask," says Chris Paul, Partner at Trowers & Hamlin.**

Currently, hotels and holiday accommodation largely escape the controls that prohibit letting of buildings that fail to meet minimum energy efficiency standards because rooms aren't let on a tenancy. You can't let an office building if it doesn't meet minimum energy efficiency standards and the same is true for residential property. It wouldn't be a big step for the Government to extend the same regulations to cover other types of occupation, and so bring the leisure industry into the spotlight.

It is much easier to consider sustainability when designing and building new hotels and holiday facilities but retrofitting older properties can be more challenging – needing tailored solutions that can be expensive.

"We can keep kicking the sustainability can down the road but ultimately businesses will need to take action and invest," says Paul. "Starting that process early by measuring the environmental impact and setting targets will help. We can't expect things to change overnight, but it's less of a shock if you're spending over 30 years than if you're compressing that spend into a short period"

Putting any changes in legislation to one side, it should make good business sense to move towards a more sustainable operation. In the office sector, corporate occupiers are already starting to stipulate good BREEAM ratings when choosing a new building.



Consumers are increasingly switched on to the climate agenda. Sentiment has already turned against single-use plastic and climate change demonstrations are gathering momentum. Who hasn't heard of Greta Thunberg and what she stands for? It is only a matter of time before the sustainability of hotels and holiday accommodation comes under proper scrutiny from potential guests.

Julien Allen, Partner at Trowers & Hamblins points to the experience of Tokyo in the 1980s when it was confronted with excessive pollution. "It became fashionable and desirable to have an ecologically sound hotel room and we are seeing that starting to filter through in the UK."

Acting now to make hotels and holiday accommodation more sustainable could be a competitive advantage.

Meeting sustainability targets also requires broader thinking, looking beyond the front door of an individual business and considering its wider impact – including how its employees and guests plan their travel.

Chris Rundle, Partner at Trowers & Hamblins believes a consequence will be the need for more coordination, sharing and connectivity between businesses. He uses the South West region as an example where transport is an issue. During the peak holiday seasons roads get congested and public transport is poor, offering little in the way of an alternative to the car.



**I think there's already a signal of change, businesses that are trying to combine attractions and amenities with more sustainable transport."**

He cites examples of businesses locating near to transport hubs or holiday venues, and holiday parks partnering with local attractions to provide private bus transport between the two and make it easier for guests to leave the car behind.

Collaboration and coordination also needs to extend to supply chains as part of a holistic approach. There is no point a hotel badging itself as plastic-free and energy efficient if its suppliers don't meet the same standards. Businesses need to work closely with suppliers to take them on the journey. It may seem a way off but it wouldn't take much for the effect to snowball across the industry.

Arguably destinations such as Devon and Cornwall are attracting tourist who have a love of the natural environment and so the impact of pollution and climate change is more visible. Consumers also have a choice – if you like surfing there are different places you can go and sustainability might be one of the determining factors.

But what about a city like London which attracts millions of tourists every year? If you want to see Buckingham Palace there is nowhere else to go.

The capital is one of the most visited destinations in the world and competes on the world stage for tourist spend. Are decisions about where to stay driven more by price, availability and location than other considerations such as sustainability?

Allen says: "Whether high end, middle end or low-end hotels, London has a different market, different things are driving it. I think drastic change is unlikely to hit London any time soon, because there would need to be too many concessions."

London already has an extensive public transport network, restrictions on polluting vehicles, hire bikes and improving cycle routes which are an advantage over countryside destinations like the South West. But how do you make London tourism sustainable, particularly given the amount of existing hotel stock there is?

"New developments, no problem, you can create sustainable hotels but then you have these great old listed buildings some of which barely have disabled access," says Allen.

London like the rest of the UK's tourist destinations will have to find a way to be greener. Changing consumer trends may be a carrot but legislation will inevitably be the stick.





# Why it might be time to consider green finance

Over the past few years, banks have come under scrutiny and pressure to support the transition to net zero carbon. So far incentives have been more carrot than stick and this is already having an impact but that doesn't mean it will stay that way.





Bank of England Governor Mark Carney together with other central bank leaders set up a task force looking at climate risk – the Network For Greening the Financial System. It is voluntary, seeking to share best practice and experiences and nudge the industry in a more environmentally aware direction. This coupled with the work done by the Task Force for Climate-related Disclosures is already stimulating change.



**“We have begun to see banks, as part of their credit risk assessment, looking at the environmental impact of the assets and the businesses that they are funding and what the consequences of climate change could potentially be for those businesses,” says Helen Fysh, Senior Associate at Trowers & Hamlins.**

Also, the banks want to see that the businesses they are potentially lending to are addressing some of the issues they may face as a result of climate change. This has resulted in the development of a number of tools to assess the businesses risk.



**“It’s potentially a huge stick to get people to pay attention and look beyond their own footprint and their own business,” says Katharine Lewis, Partner at Trowers & Hamlins.**

Positive impact loans – loans for projects which have good sustainability and social impact credentials have been making headlines. The benefit for the borrower is that there is an overall reduction in borrowing costs if the money is used for social good or to reduce environmental impact. To benefit from the cost reduction the borrower has to meet certain targets, the downside is that this requires additional reporting for which there is a cost attached.

One of the biggest regional funding deals so far this year was a green loan. Bruntwood SciTech secured a loan of £185 million for the next phase of its Circle Square development in Manchester and refinancing 1.7 million sq ft of its portfolio.

Under the terms of the loan and to benefit from lower borrowing costs, the offices developed have to meet a BREEAM excellent rating. But more than that they have to get their tenants to sign up to a “Green Memorandum of Understanding” in which they commit to support ongoing environmental good practice.

There are already energy efficiency standards on buildings – anything rated F and below, with a few exceptions is unlettable – but this moves the thinking beyond developers own carbon footprint to that of their tenants. It is a big shift. While it potentially limits the number of businesses that could lease the space, for businesses without good sustainability credentials it could also limit their choice of buildings.

Banks are looking to rebuild trust after the financial crash and this could be seen simply as a ‘halo-polishing’ exercise but the climate strikes – the Greta Thunberg effect – is pushing environmental impact up the agenda.





**To stay relevant for banks it's no longer just about generating shareholder value and this is something that prevails through all different types of industry," says Fysh.**

The shift in thinking to one in which value and impact have a broader meaning is also reflected in two small changes to regulations that have come into effect this year. The corporate governance code has been tweaked to put the onus on directors to consider the long-term sustainability of their businesses as well as value generation for shareholders.

And, this month pension trustees fiduciary duties have changed. Trustees will now have to consider environmental, social and governance factors alongside their other material financial considerations when investing.

Given that big pension funds invest heavily in UK real estate it has significant implications for the industry.

"This change, the obligation on pension fund trustees to consider the sustainability aspects of how their funds are invested means they're now going to have to stop and think about more than longevity or yield," says Neil Biswas, Partner at Trowers & Hamlins. "Increasingly they are going to have to consciously select property assets which are going to be more sustainable because they have to demonstrate that this is part of the decision process."

Already, some US funds expect buildings to meet certain BREEAM and wellness standards before they will consider buying. If you are a developer looking to build and sell on, it makes good business sense to ensure your buildings meet very good environmental standards, even if it isn't currently obligatory.



New buildings only form a relatively small proportion of the total building stock in the UK. It is easier to construct a green building from scratch but trickier to improve the energy efficiency of existing, older stock. With tougher regulations on fire safety likely to be recommended in the post-Grenfell consultations landlords could find themselves having to invest both for safety and energy efficiency improvements.

For developers like Argent, sustainability is already high on the agenda but for businesses where it isn't, legislation might not be long in coming. The Government is now out to consultation on increasing the energy performance standards that non-domestic rented properties must achieve. One proposal is that premises must achieve at least an energy performance certificate (EPC) rating of "B" by 2030; a material change to current standards. The liability for meeting these higher standards will inevitably lead to disputes. The capex could be substantial with many tenants already struggling to meet rental payments," says Biswas.

The latest Government initiative towards tightening regulations is the Future Homes Standard consultation paper which was published on 1 October to introduce more stringent Building Regulations standards. The Government plans to introduce new Regulations mandating low carbon heating; minimum ventilation standards; and exemplary energy efficiency in new builds. It is hoped that the Regulations would be effective from 2025.

Tougher regulations to one side, the incentives for making property and property businesses greener are growing whether it is the ability to secure funding, a buyer or a tenant.



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