

Response ID ANON-916W-SVXF-X

Submitted to Call for evidence on Net Zero review
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About you

What is your name?

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What is your email address?

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What is your organisation?

Organisation:
CREFC Europe

Where are you/your organisation based?

Please expand on your answer here:
London

What sector do you/does your organisation operate in?

Please expand on your answer here:
Real estate finance (business-to-business, not retail mortgages)

Are you happy for your response to be published?

Yes

Would you like to be contacted when the consultation response is published?

Yes

How did you hear about this consultation?

Where did you hear of this consultation?:
Email from elsewhere

Other (please specify):

Overarching questions

1 How does net zero enable us to meet our economic growth target of 2.5% a year?

Answer here:

We do not really understand this question. Its net zero strategy positions the UK to (a) make its contribution towards humanity's effort to mitigate the potentially terrible social and economic consequences of climate change, and (b) create the incentive framework for business investment, innovation and behavioural change that can build a more resilient and sustainable UK for the future.

A policy framework that encourages the innovation and investment in skills that are required to meet challenging climate goals like net zero carbon will, of course, drive the kind of productivity growth that can underpin stronger, sustainable economic growth for a generation.

Whether a net zero carbon strategy will help the UK meet a somewhat arbitrary 2.5% a year GDP growth target (over what time frame? at all costs, or subject to particular conditions?) is another matter, as, indeed, is whether that remains the UK's target after a rather tumultuous few weeks in UK politics.

In general, please note that we have seen, and are strongly supportive of, the submissions in response to this call for evidence of the Better Buildings Partnership. We are a modestly resourced industry association that does not specialise on sustainability and climate change (albeit these are topics in which we and our members are very interested, and spending more and more of our time in recent years). That, coupled with the very short response period at a time full of other distractions (some of them of the government's own making), meant that we were not able to conduct the kind of member engagement that might have informed a more thorough and detailed set of submissions.

2 What challenges and obstacles have you identified to decarbonisation?

Answer here:

While the climate crisis is widely acknowledged to require urgent action, the business and investment decisions to drive net zero involve medium to long term action. That is especially the case in a fundamentally long-term and capital intensive sector like real estate (for developers and investors, and for the lenders that fund many of their activities).

Policy consistency and certainty are the essential backstop that enables strategic financial commitments in innovation and skills in such a sector to be made.

We urge the government to maintain its focus on the UK's existing decarbonisation commitments and to continue adding to the milestones (such as the future pathway for minimum energy efficiency standards) and other tools (such as mandatory performance based ratings for larger commercial buildings) that can help us achieve them.

Three other key challenges / obstacles that we would identify are:

- inadequate skills;

- the difficulty and cost of transforming many older buildings to be no (or at least very low) carbon while recognising the importance of whole life carbon; and

- the unavailability of key energy-related data (so too much work towards decarbonising buildings is based on poor proxies for emissions or even energy use, like EPC ratings).

All of these other challenges can be eased if policymakers set the right course and provide clarity and predictability for private capital and business.

3 What opportunities are there for new /amended measures to stimulate or facilitate the transition to net zero in a way that is pro-growth and/or pro-business

Answer here:

We would suggest that facilitating the transition in a decisive way is inherently pro-growth and pro-business. Policy uncertainty, a lack of clarity around the future trajectory of regulation, and policy that is too tentative create an environment in which firms that want to invest in the green transition will find it difficult to do so.

The important caveat to that proposition is that policymakers do need to listen to business - as we have seen with the EU's early moves on the taxonomy and SFDR, getting regulatory frameworks exactly right, especially in a new area where technology and market demand are evolving, is impossible. There needs to be a pragmatic dialogue between policymakers willing to move quickly and decisively, but also willing to listen to feedback and course-correct to ensure that measures work, and are likely to achieve their objectives with the minimum of unintended consequences.

Having said all that, I would focus on one key area for opportunity that coordinated policy can enable.

In the built environment and commercial real estate, sustainability leadership mostly resides in some of the major, long-term institutional asset managers - the kind of firms that are members of the Better Buildings Partnership or UK Green Building Council, and that support other initiatives to develop standards, strategies and other mechanisms. However, the large majority of real estate owners (and the large majority of real estate) do not fall into that category - there is a long, brown tail of buildings and owners for whom sustainability is a complicated and foreign concept that cannot straightforwardly be integrated with traditional financial considerations. How can those buildings and their owners undergo decarbonisation?

The most obvious way is through regulation. Minimum energy efficiency standards have various weaknesses, but they have been instrumental (much like energy efficiency labels on white goods, light bulbs, etc.) in raising awareness and focusing attention on sustainability - whether because it affects the lettable of a property, or because it provides a framework for understanding the relationship between energy efficiency, up front costs and ongoing savings.

But the other way (which can work very well in tandem with good regulation that drives improving standards) is through lenders. Unlike the sustainability leaders in our industry, most real estate owners use debt - and the reality of the market is that a relatively small number of lenders can reach a very large number of borrowers. That is the case even in the healthily diversified (post GFC) UK real estate lending market.

Given the right tools, lenders can commoditise and package advice and finance to catalyse the decarbonisation of UK real estate. Those tools are:

a) a suitable regulatory framework (including, specifically, the capital and disclosure frameworks applicable to banks - currently, these do not appear properly to incentivise brown-to-green lending strategies, directing capital instead disproportionately towards shiny new buildings),

b) availability of relevant performance data (ideally actual energy use and emissions data, rather than merely EPC ratings), and

c) suitable, widely accepted frameworks for assessing the performance, and improvements in the performance, of buildings in terms of carbon.

Rising energy costs, regrettable though they are, can actually help insofar as investment to reduce energy costs (by improving efficiency), and/or in on-site renewables (to improve energy security and resilience) becomes much more attractive when the amount and volatility of energy costs rise.

4 What more could government do to support businesses, consumers and other groups to decarbonise?

Answer here:

We refer you to the submissions of the Better Buildings Partnership. Besides the fundamental need for clear and determined policy and regulation, leadership from government as an occupier and in procurement is key. Promoting data availability is also critical.

Investment in a more sustainable economy, including by working towards net zero carbon, needs to be seen as just that: it is investment, not expenditure. In certain contexts, the financial payback period may be long; if the state itself cannot take the long view, we are all doomed.

5 Where and in what areas of policy focus could net zero be achieved in a more economically efficient manner?

Answer here:

See previous responses and BBP submissions.

6 How should we balance our priorities to maintaining energy security with our commitments to delivering net zero by 2050?

Answer here:

Why are these presented as competing priorities? Reducing energy demand (for example, in the property context, through better insulation and the application of circular economy principles in the selection of building materials and methods) and providing for an ever greater share of supply through renewables are approaches that address both priorities.

7 What export opportunities does the transition to net zero present for the UK economy or UK businesses?

Answer here:

If we are ambitious, we will develop skills and technical innovations that can be exported to other countries. If we are not, we will have to import them.

Questions for businesses

8 What growth benefits/opportunities have you had, or do you envisage having, from the net zero transition?

Answer here:

See previous responses and BBP submissions.

9 What barriers do you face in decarbonising your business and its operations?

Answer here:

See previous responses and BBP submissions.

10 Looking at the international market in your sector, what green opportunities seem to be nascent or growing?

Answer here:

See previous responses and BBP submissions.

11 What challenges has the net zero transition presented to your business?

Answer here:

See previous responses and BBP submissions.

12 What impacts have changing consumer choices/demand had on your business?

Answer here:

See previous responses and BBP submissions.

13 What impacts have decarbonisation/net zero measures had on your business?

Answer here:

See previous responses and BBP submissions.

14 What more could be done to support your business and/or sector to decarbonise?

Answer here:

See previous responses and BBP submissions.

15 Do you foresee a role for your business within an expanded UK supply of heat pumps, energy efficiency, electric vehicles, hydrogen or clean power?

Answer here:

See previous responses and BBP submissions.

16 For clean power industry: what barriers to entry have you found in deploying clean energy?

Answer here:

See previous responses and BBP submissions.

17 How many green jobs do you estimate will be created in your sector by 2030?

Answer here:

See BBP submissions. Is there a particular reason for focusing on 2030 here?

Questions for the public

18 Have you or are you planning to take personal action to reduce your carbon emissions (for example through how you travel, what you buy, how you heat your home)? If so, how?

Answer here:

19 Do you face any barriers to doing this? What are they?

Answer here:

20 What would help you to make greener choices?

Answer here:

21 What is working well about the measures being put in place to reach net zero?

Answer here:

22 What is not working well about the measures being put in place to reach net zero?

Answer here:

23 Do you have any further comments on how efforts to tackle climate change are affecting you?

Answer here:

Questions for local government, communities and other organisations delivering net zero locally

24 What are the biggest barriers you face in decarbonising / enabling your communities and areas to decarbonise?

Answer here:

25 What has worked well? Please share examples of any successful place-based net zero projects.

Answer here:

26 How does the planning system affect your efforts to decarbonise?

Answer here:

27 How can the design of net zero policies, programmes, and funding schemes be improved to make it easier to deliver in your area?

Answer here:

28 Are there any other implications of net zero or specific decarbonisation projects for your area that the Review should consider?

Answer here:

Questions for academia and innovators

29 How can we ensure that we seize the benefits from future innovation and technologies?

Answer here:

30 Is there a policy idea that will help us reach net zero you think we should consider as part of the review?

Answer here: