

HOW TO GREEN THE BROWN

A Practical Sustainability Guide – Investor Series



CUSHMAN &
WAKEFIELD

WE MAKE SUSTAINABILITY PRACTICAL



We know that **life is what we make it**, and as one of the largest real estate companies in the world, we have the rare opportunity to help make an impact.

We believe that living the change we want and need to see in the world is imperative. That's why we're taking action now to positively impact the planet, by taking practical steps to implement these changes today.

This is why we've created the **How to Guides Series** – a set of clear, actionable how-to items you, the owner or occupier, can do right now to make your asset or even organization more sustainable and better optimised to handle what tomorrow brings.

By **living change now**, we can ensure tomorrow is better for everyone.



LIFE IS WHAT **WE** MAKE IT

LIVING **CHANGE** NOW

HOW TO GREEN THE BROWN:

Most buildings around the world were not designed and constructed with sustainability in mind. Only a few globally exemplify best-practice and can claim a truly green status.

Instead, the vast majority of commercial properties, from office towers and retail malls to retirement living facilities, are ageing, brownfield structures needing an urgent uplift in green credentials.

At the same time, sustainability in the built environment is expanding well beyond the core of decarbonisation. Waste reduction, preservation of biodiversity and social sustainability are some additional important considerations.

Investors and landlords seeking to transform brownfield buildings into greener assets can explore various practical, situation-dependent solutions.

This guide offers insights and steps to support the journey from brown to green.

**US\$24.7
trillion
by 2030**



Investment opportunity for the green building sector in emerging markets alone¹

**US\$5.2
trillion
over next decade
is needed**



to decarbonise the built environment and green real estate²

**70%
of the
stock**



in large global cities will still be standing in 2050³

Studies confirm the
**green
premium**



with higher relative rental yields and building values⁴

¹International Finance Corporation, World Bank Group: Green Buildings, A Finance and Policy Blueprint for Emerging Markets, 2019.

²World Economic Forum, Davos Agenda 2022. The conversation about green real estate is moving on as corporates prioritize sustainability

³World Economic Forum, Davos Agenda 2022. The conversation about green real estate is moving on as corporates prioritize sustainability

⁴Green is Good Series | United States | Cushman & Wakefield (cushmanwakefield.com)

Banking on Green Office Buildings in Singapore | Singapore | Cushman & Wakefield (cushmanwakefield.com)

<https://www.cushmanwakefield.com/en/greater-china/insights/hong-kong-esg-landscape-report-2022>

STEP 1

DEVELOP FIT-FOR-PURPOSE PROGRAMS

ALIGN ROADMAP WITH INVESTMENT STRATEGY.

Asset hold periods vary based on a range of investment strategies, including core, value add, and opportunity funds. However, all too often, sustainability initiatives are presented in a one-size-fits-all approach. This reduces the chance of projects being implemented, and potentially wastes time on strategies that are not aligned with the investment plans for the building.

A better approach is to first clearly understand the investment strategy for the asset, and use that to focus efforts where the biggest impacts can be made. For example, assets with a shorter hold period should prioritise high impact savings measures where the payback is short, or the building has a greater need. Assets with longer-term holds have an opportunity to be more aggressive and holistic with investment plans to reposition or improve performance.

That is not an excuse to be less ambitious though. Even assets with a short-term hold, will still need to be improved over time to achieve net zero carbon obligations and making key improvements may make assets more appealing to prospective buyers with strong sustainability commitments. The key here is to stage investments accordingly. An asset with a 3-5 year hold period may still need a 10-15 year capital plan, aligned with long-term building needs, major changes in services and equipment, and incremental progress towards decarbonisation.

Smart investors today are mapping their immediate investment activities to their overall asset strategy while keeping an eye on the long-term. Any asset that comes to market now, with a clear history of decarbonisation, and a credible pathway forward, is an easier proposition to take on, compared to

a building with no medium or long-term plans in place. Which would you prefer – a blank page where you need to start from scratch, or a carefully mapped out roadmap, with signs pointing the way ahead?

Before jumping straight to building-level sustainability initiatives such as upgrading HVAC systems or installing energy-efficient lighting systems, developing a sustainability roadmap that fits your investment strategy is vital. The specific asset classes, time horizons and market dynamics can influence sustainability approaches.

Different portfolio strategies have different timeframes. **Matching your sustainability roadmap to your portfolio strategy is key to delivering aligned benefits and positive returns.** The key is to consider your investment strategy first, then carefully select sustainability initiatives that align with your investment time horizon. This will ensure time is spent on activities more likely to succeed and achieve funding without overcapitalizing or impacting your hold period.

No matter when you plan to sell an asset, having a robust plan in place means a new owner can easily adopt it, adding the potential to positively influence transaction negotiations.

It's also appropriate to consider capital expenditure, payback periods and meeting stakeholder expectations to determine what is genuinely achievable. Remember, any progress is positive, and there are benefits to starting early and being deliberate, even if you don't intend to hold an asset over the long term.

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The cost of many sustainability initiatives is declining over time, while the cost of inaction is increasing. The decreasing cost of LED lights has helped make them ubiquitous, and solar generation is following a similar path. That's why it is best to begin your sustainability journey without delay.

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The investment strategy-sustainability alignment matrix

STRATEGY	 CORE	 CORE PLUS	 VALUE-ADDED	 OPPORTUNISTIC/ REPOSITIONING	 REDEVELOPMENT
HORIZON	Long term (10+ years)	Medium-term (4 – 8 years)	Medium-term (5-7 years)	Short-to-medium term (3-7 years)	Medium-term (3-5 years)
CAPEX REQUIREMENT	Phased capital works requirement over time	Moderate capital works requirement	Moderate capital works requirement	High capital works requirement	High capital works requirement
TYPICAL STRATEGY FOCUS	Income and tenant stickiness in prime markets	Income, tenant stickiness and light refurbishment in secondary markets	Income and capital growth driven by upgrades	Capital growth driven by significant refurbishment	Construction
SUSTAINABILITY FOCUS	Maintaining high standards and executing roadmap	Improving and then maintaining high standards	Integrating new sustainability initiatives into building improvements	Identifying quick wins	Integrating sustainability into decision making during design and construction
SUSTAINABILITY PROGRAM /TACTICS	Building performance tracking and optimisation and public disclosure. Maintenance of net zero carbon energy supply.	Moderate to aggressive reductions in energy, water, waste, and carbon. Building optimisation and public disclosure of performance.	Short-medium term payback program, linked to hold period. Supplement short-term actions with a medium- long-term decarbonisation strategy to continue efforts post-asset sale.	Optimise performance based on opex spend, building performance improvements, and selective capital expenditure.	Holistic rethink across embodied and operational carbon and wider sustainability metrics. Reduce impacts during development and ongoing operational phase post-upgrades.

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USE SUSTAINABILITY TO SUPPORT YOUR TRANSACTIONS.

For Sellers:

If you are selling an asset, there are benefits to having a long-term sustainability roadmap that a buyer can adopt. Among other factors, it provides visibility of required upgrades and associated capital costs.

If an asset repositioning program extends for 10-15 years, it may only be held within the portfolio for a portion of that time. However, considering the long-term pathway means you or a future owner can take a measured, staged approach to asset enhancements.

For Buyers:

In today's dynamic portfolios, assets frequently change hands. Good deals can still be hard to find, and it is critical that you can quickly and easily assess the potential for asset upgrades and decarbonisation during the short due diligence window.

When acquiring assets, it is therefore crucial to evaluate the state of sustainability progress before finalising transactions.

During the due diligence phase, assess a building's suitability for sustainability upgrades, the scope of work needed, and the existing plan's status, alongside traditional factors. Dig deeply to ensure you understand what you are buying, and the potential costs for improving the sustainability performance over time.

Since modelling potential capital works, accreditation, and asset marketability are already familiar purchasing considerations, ensure you include green improvements and associated costs as part of the deal.



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What questions should you consider during acquisition?

- Is there a clear sustainability roadmap in place, and how progressed is it?
- What are the realistic timelines for upgrades, and what CAPEX should be set aside?
- Should we be applying a premium or a discount based on an asset's green status?
- What risks or advantages does the asset offer? (e.g. solar and batteries to mitigate grid failures or rising energy prices, risks to basement level plant and business continuity amid flooding)
- What makes this building attractive to tenants?

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STEP 2

UNLOCK THE HIDDEN VALUE OF E, S AND G

LOOK BEYOND THE TRADITIONAL METRICS.

Many sustainability measures make great business cases from the outset. For example, energy efficiency saves you money and reduces carbon. That's a win-win scenario.

However, **many asset owners continue to set overly high investment targets meaning good projects aren't always approved for funding.** For example, choosing to invest in sustainability measures with <4 year payback, is the same as setting a 25% ROI goal. Meanwhile the overall asset investment plan may be targeting a return far below that level. Why are we making it hard to invest in measures that drive better building performance? By expanding the payback threshold (e.g. <8 years), or aligning this with the long-term capital works plan, more ambitious projects will be put forward, setting you on the path towards decarbonisation sooner.

Investors also shouldn't limit themselves to isolated sustainability goals or view the benefits through a limited lens:

- Sustainability can drive financial returns, particularly from energy and carbon reduction, but it can also be used to attract tenants, appeal to savvy investors, stay ahead of regulatory burdens.
- Water is often ignored because it is relatively inexpensive. However, if you have assets located in areas that experience drought or extraction challenges, water conservation should be part of business continuity planning and risk management.
- Social impact is hard to define, and as a result can be under-invested. But increasingly we see examples of investors attempting to create

positive change, and when done well, the social benefits are clear - e.g. job creation, creation of public amenity, etc.

- Evaluating performance is also essential but it's not just about financial return. Investors can evaluate the success of their social programs by measuring local job creation or public amenity creation, such as parks, rather than thinking of it in terms of a valuation uplift.

Remember, **there is no one-size-fits-all solution when it comes to asset types and portfolios.** The programs to increase the positive impact for a retail centre in regional Australia will be very different to an industrial facility in Europe or retirement living in India.

Again, it's essential to consider sustainability issues and risks in the context of your broader strategy. While the benefit of introducing a program may be unclear at the building level, it may provide broader benefits, such as strengthening the brand and reputation. As market expectations for sustainability performance increase, so do the risks of inaction.

Whether you are investing in multi-national portfolios or a single asset, meeting stakeholder requirements can vary across locations. Investors can first consider regulatory obligations but moving beyond that requires an understanding of broader expectations.

In most markets, bringing buildings up to the local code won't deliver best-practice sustainability credentials. In a globalised environment, investors must account for the impact of the most progressive markets and how that influences the global competitiveness of their assets.



Investors must challenge themselves to think more holistically and capture the benefits of moving beyond the 'E' in 'ESG.'

For example, the Green Mark Certification is the culmination of years of regulatory tightening in Singapore. In Australia, the NABERS ratings have become ubiquitous and foundational in ensuring that ageing stock is far greener. While this helps shape sustainability programs at a country level, understanding global standards and universal taxonomies is just as crucial.

This is where global ESG benchmarks such as GRESB can be leveraged. GRESB measures the performance of funds and real assets against sustainability metrics and helps identify risks and opportunities when transacting.

Ultimately, investors can use their global mandates to take a more uniform approach to sustainability across markets. Exerting this influence can advance the sustainability of existing buildings for the benefit of all participants.

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STEP 3

TAKE ACTION
EARLY,
AND OFTEN

JUST GET STARTED.

Once your sustainability plan is tailored to the investment strategy, you're ready to begin thinking at an asset level. At this point, investors can start prioritising activity based on each building's profile.

Budgeting for, and commencing, upgrades and green initiatives should always be intentional. Ask questions such as, how does this project help to retain tenants? Do we want to accelerate broader net-zero plans that would benefit from increasing renewables supply or offsets?

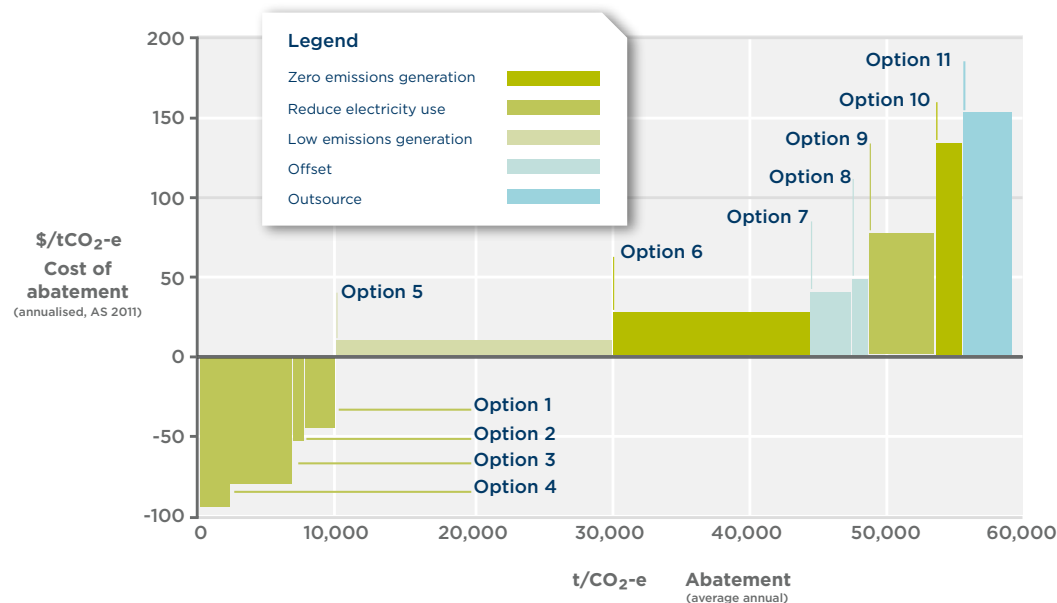
The next steps are tactical. This includes translating the top priorities into capital works planning for a building and embedding targets and measurement into property management contracts. Looking further ahead, initiating an increase in renewable energy supply benefits from early planning, given the multi-year lead times for on-site installation or negotiation of supply contracts such as Power Purchase Agreements (PPAs).

With the swiftly advancing market, waiting offers no advantage; securing renewables now avoids lagging behind the rapidly evolving market and regulatory landscape. Instead, larger institutional managers can set the pace, not merely follow.

The marginal abatement cost (MAC) curve

The MAC curve compares and considers the costs and emissions reduction impact of different initiatives. Options 1-4 show low-cost opportunities that provide cost savings and lower emissions abatement, which could relate to the effect of behavioural changes, for example.

After that, there are higher net costs and varying levels of abatement, and by multiplying the cost per tonne of carbon avoided, reveals the cost, emissions reduction, and payback horizon.



Adapt sustainability tactics across asset classes

The key to early action is having an asset specific strategy. Don't try to shoehorn an office strategy into an industrial facility. What works in office may not work in retail. Each asset class and tenant has slightly unique drivers. The more deeply you understand their needs the faster you can accelerate towards goals.

For industrial facilities, landlord-tenant collaboration can be powerful as there's often only one tenant, whereas air quality or employee health and wellness are considerations for offices. Water is a big issue for data centre cooling and manufacturing, while for laboratories, being careful around disrupting energy supply may be crucial.

What's important is that sustainability initiatives are developed and adopted as tailored roadmaps and solutions.

BALANCE DESIGN WITH BEHAVIOURAL CHANGE.

Capital improvements of an asset can drive significant uplift, but they also take time. **Concurrent with your design initiatives, look for operational changes that can be implemented today and expanded over time.** Green initiatives often focus on building design and infrastructure, which while important, ignores the whole picture. For investors, the needs and behaviours of end users of the facilities, such as property managers, occupiers, or the general public, must be taken into account.

Investors have an opportunity to influence behavioural changes alongside design and structural shifts to deliver a positive impact beyond the traditional boundaries of the building. Activities can include working with property managers to identify sustainability improvements or collaborating with tenants to jointly advance decarbonisation goals.

This approach relies on proactive engagement and can be as simple as establishing a committee with both landlord and tenant representatives that provides a forum to work harmoniously along the sustainability journey. This can be enshrined in a leasing agreement, and upgrades can even become part of the leasing negotiations.

Making the process simple and accessible is also recommended. A building may target on-site renewable generation and consult with tenants who want to benefit from greener, cheaper energy. Having authentic conversations and explaining the mutual benefits can go a long way to bridging the traditional landlord-tenant divide and progressing the greening process.

For a public facility, like a retail mall, it's crucial to eliminate any ambiguity for patrons. Ensuring recycling is easy, supported by clear signage and sufficient infrastructure, can enable the public to participate effortlessly and effectively.



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OUR SERVICES



If you are interested in greening your brown asset, you may want to know more about our Sustainability Services or our Capital Markets Services:

SUSTAINABILITY SERVICES

We develop your sustainability strategy and implement it too. We work with some of the largest occupiers and investors globally to action ideas and strategies for a more sustainable world. What sets us apart is our ability to collaboratively execute these strategies at all stages for all asset classes.

We take practical steps across your sustainability journey to protect and enhance the value of your real estate:



CREATING SUSTAINABILITY STRATEGY

- Baseline & benchmarking
- Materiality assessments
- Vision & objectives
- Goal & target setting
- Strategies & roadmaps

ENSURING COMPLIANCE

- ESG compliance programs
- Carbon accounting
- Building benchmarking & mandatory audits
- ESG compliance reporting

MANAGING CLIMATE RISK

- Climate risk scenario analysis
- Climate risk scores & assessments
- Risk mitigation strategies and plans
- TCFD Reporting & EU Taxonomy advisory

DRIVING OPERATIONAL EFFICIENCY

- Utility management
- Benchmarking surveys
- Energy, water, waste audits
- Efficiency plans
- Energy modelling
- Procurement plans

DEMONSTRATING IMPACT

- ESG data collection, management & governance
- Building certifications (LEED, BREEAM, WELL etc.)
- Benchmarking & score optimization (GRESB)
- ESG reporting & disclosures (GRI, SASB, CDP, TCFD etc.)

DELIVERING NET ZERO

- Net zero audits
- Net zero strategy & roadmaps
- Policies & processes
- Procurement programs
- Project management

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SUSTAINABILITY SERVICES



CREATING SUSTAINABILITY STRATEGY

We develop and implement strategies to tackle challenges, meet stakeholders' expectations, and deliver on your corporate responsibilities

ENSURING COMPLIANCE

We help you navigate the increasingly complex compliance minefield from energy auditing and energy performance; climate-related risks and opportunities; to broader ESG reporting mandates.

MANAGING CLIMATE RISK

We enable you to understand how climate change might impact your assets and portfolio and then we help you manage and disclose your climate-related risks and opportunities.

DRIVING OPERATIONAL EFFICIENCY

We proactively manage resource consumption. We benchmark energy, carbon, water and waste performance, develop & execute a bespoke plan, and monitor & report your performance.

DEMONSTRATING IMPACT

We help you demonstrate positive ESG impact and communicate your progress accurately and transparently to stakeholders, through our proactive sustainability reporting and ESG disclosure approach.

DELIVERING NET ZERO

We can support you understand your baseline, assess performance and optimize your path to net zero. Then we put in place the necessary policies and processes that enable action and support delivery.

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For investors looking to dispose or acquire investment grade properties or portfolios, we offer comprehensive global transaction solutions. Our unsurpassed network of buyers and sellers, access to international capital and superior market data provides our clients with unique access to opportunities and capital sources worldwide.

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We strive to provide expert advice and consulting expertise to help clients maximize the value of their real estate holdings. This can include underwriting of transaction pricing, commercial due diligence, portfolio reviews and investment strategy.

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SINGLE ASSET & PORTFOLIO TRANSACTIONS

ACQUISITION

Whether you are seeking to acquire a property investment for short, medium or long-term gain, our experts identify the most suitable opportunities in the market across every sector.

DISPOSAL

Our teams can advise you on the best strategies available to help you monetize your investment, and minimize your risk, through the disposal of a single asset, portfolio of assets, or divesting from a particular market.

MARKET INTELLIGENCE & FINANCIAL ANALYSIS

Through extensive due diligence and real-time market data, coupled with on-the-ground professionals who understand every aspect of real estate investment to help you realize superior returns on your investments.

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Our extensive understanding of how finance is linked into real estate is reflected in the integration of Corporate Finance into our Capital Markets business, providing financial advisory and execution services to investors, occupiers and fund managers. We are a dedicated, multidisciplinary group of internationally experienced professionals, who provide expert advice on transactions across all markets.

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Cushman & Wakefield (NYSE: CWK) is a leading global commercial real estate services firm for property owners and occupiers with approximately 52,000 employees in approximately 400 offices and 60 countries. In 2022, the firm reported revenue of \$10.1 billion across its core services of property, facilities and project management, leasing, capital markets, and valuation and other services. It also receives numerous industry and business accolades for its award-winning culture and commitment to Diversity, Equity and Inclusion (DEI), Environmental, Social and Governance (ESG) and more. For additional information, visit www.cushmanwakefield.com.

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