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UK Real Estate Viewpoint

Green to gold: realising opportunities from the carbon transition

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The potential for real estate to deliver green energy infrastructure is often overlooked. We explore the interventions required to monetise green energy, and how investors might benefit from the carbon transition

At Columbia Threadneedle Investments we have long been vocal in our view that decarbonisation presents a positive opportunity to align environmental and financial outcomes. Incorporating green energy infrastructure into the development and refurbishment of our assets reflects the tactical implementation of that strategic conviction.

Future-proofing assets to align with occupiers' green ambitions demonstrates good stewardship and offers significant potential to add value to existing land and buildings. Through the delivery of green energy to occupiers and wider communities we are able to generate additional revenues for investors.

The two principle drivers of value are power generation, primarily derived from rooftop solar photovoltaic (PV) panel installations, and power provision, typically through electric vehicle (EV) charging. Revenues can also be derived through power storage (batteries), leveraging the arbitrage in the electricity price differential at various points in the day, although this is less tested and typically attracts higher capital costs.


Hurricane 52, Liverpool

How can green infrastructure be delivered?

Green energy infrastructure can be delivered either through existing buildings or by repurposing surplus land or assets. Successful green energy real estate assets of the future are likely to derive significantly enhanced revenues through a mix of power generation and provision.

Power generation

On-site power generation has multiple benefits. As well as significantly accelerating an asset's pathway towards operational net zero carbon emissions, being the 'right side' of the grid enables power to be sold directly to occupiers at retail prices rather than being sold back to the grid at wholesale rates. Revenues vary depending on location, PV orientation and scale, but yields on cost are typically 7%-8%, with long-term internal rates of return in the high single digits.

However, delivery of economically viable PV revenue is highly complex and requires active engagement with multiple stakeholders. Our asset management teams have upskilled in this area via engagement with technical, legal and occupational advisors to drive forward projects with maximum mutual benefit.

Principle into practice: By way of example, we recently refurbished a 30,700 sq ft industrial unit in High Wycombe, including enhanced coverage of solar PV panels. This achieved an EPC A+ rating, meaning the unit is capable of net zero carbon operation. A new letting was achieved at an 81% premium to the previous passing rent, and in addition, a Power Purchase Agreement (PPA) was signed with the tenant, which committed it to purchasing the power generated by the PV panels. The project delivered an overall yield on cost of 9.8% and a gross profit on cost of 38%.


Thomas Road, High Wycombe


Thomas Road, High Wycombe

Power provision

The second opportunity to monetise green energy infrastructure is to become a power provider through the installation of EV charging points. This allows us to take advantage of favourable government policy and consumer preferences. In January 2024, the Society of Motor Manufacturers and Traders (SMMT) reported sales of EVs, comprising battery electric vehicles and hybrids, account for approximately 36% of all vehicles sold in the UK[1] – up from 34% in January 2024. Taking account of both privately owned and fleet-operated vehicles, there are now more than a million battery electric cars in the UK. This figure is projected to increase significantly in line with government-imposed decarbonisation targets through to 2050.

Aside from domestic driveways, which are not available to apartment occupants, the logical charging destinations of choice will align to existing demographic patterns – primarily shopping. We view this as a significant opportunity to realise latent value from underutilised areas of existing assets.

As one of the largest managers of carborne out-of-town retail warehouses in the UK, with 142 assets under management[2], we believe we have a significant competitive advantage in this area, and can operate at scale to the mutual benefit of all our clients and occupiers

Gallagher Retail Park, Coventry

[1] Society of Motor Manufacturers and Traders, January 2024 – based on BEV registrations since 2002.
[2] Columbia Threadneedle Investments. As at 31 March 2024 across our UK real estate portfolios.

Clipper Boulevard East, Dartford

Asset refurbishment and development

Finally, we see opportunity through traditional refurbishment and development initiatives to deliver an enhanced specification to the occupational markets, and benefit from greater rental growth. Our active management bias enables us to deliver these initiatives at scale, and we complete on average more than 100 works projects annually. In its most basic form, asset refurbishment that incorporates environmental improvements will decrease regulatory, liquidity and pricing risks, and deliver to increasingly discerning occupier requirements. This reduces occupational costs and enables a rental premium to be derived.

A recent example of this is in Dartford, London, where the refurbishment of an industrial unit included the installation of PV panels. This was instrumental in securing a new tenant at a 31% increase to the previous rent and is also forecast to save 23 tonnes of CO_2/year – the equivalent to the yearly electricity use of 22 average UK households, or planting 145 trees.[3]

At the other end of the scale, larger masterplans and strategic developments offer a unique opportunity to incorporate green energy infrastructure and biodiversity initiatives alongside traditional real estate construction.

Incorporating renewable energy at scale has the potential to improve energy resilience for occupiers, to the extent that some assets can be operationally net carbon negative. The scarcity of these assets ensures appeal to a wide range of occupiers and investors

[3] Syzygy, as of Q3 2020.

Bridgend Industrial Estate

Conclusion

Given recent headwinds, it is easy to be pessimistic about the prospects for UK real estate. However, nascent evidence suggests forward-looking returns have the potential to surprise on the upside due to the inclusion at scale of green energy infrastructure alongside more traditional building improvements.

The green energy transition presents a real opportunity for real estate to deliver additional value, providing investors with the potential for enhanced financial returns while simultaneously delivering on the environmental agenda.

Get to know the authors

James Coke, Fund Manager & Co-head of Institutional UK Real Estate

James Coke is Co-head of Institutional UK Real Estate at Columbia Threadneedle Investments. He took up this role in October 2020 and has joint responsibility for the investment performance and strategy of our UK institutional property mandates. He is also portfolio manager for the Threadneedle Property Unit Trust. James joined the company in 2013. James began his career in 2007 and, before joining Columbia Threadneedle Investments, he worked in the UK Capital Markets team at JLL, advising institutional clients on property acquisitions and disposals throughout the UK. James has a BSc (Hons) in Land Management from the University of Reading. He is also a member of the Royal Institution of Chartered Surveyors.

Emma Gullifer, Assistant Fund Manager

Emma Gullifer, MRICS, is the co-fund manager of the Columbia Threadneedle UK Housing Fund, a strategy focused on delivering resilient income and positive impact through the delivery of affordable build-to-rent housing. Emma joined Columbia Threadneedle Investments following a portfolio manager role at DTZ Investors, where she worked across two discretionary balanced UK Property pension fund mandates. Emma holds a BA in Linguistics from the University of Cambridge, an MSc in Real Estate from Bayes Business School, and is a member of the Royal Institute of Chartered Surveyors. Emma is also the Assistant Fund Manager of the CT UK Commercial Property Fund.

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6681937.1- | WF2043418 (Issued 06/24 - Valid 12/24)