

Reality through green-tinted glasses

Finally there is evidence that office tenants get the concept of sustainability. According to a survey by CoreNet Global and Jones Lang LaSalle, a majority of corporate real estate (CRE) occupiers - 70 per cent, in fact - are now willing to pay more for sustainable space.

The results of the survey of 44 CRE decision-makers in Australia and New Zealand were presented at a CoreNet summit in Melbourne. The survey found 60 per cent of respondents were prepared to pay up to 10 per cent in additional operating costs to occupy a sustainable building over the long term, and an additional 10 per cent were ready to pay 10 per cent or more.

Isn't that nice? It's a huge turnaround within just five years. Attending the Property Council of Australia's annual summit in Cairns in 2002, I watched CRE operators excitedly thump tables with their fists and demand not sustainability, but flexibility from landlords - not at any cost, mind you. When asked if they were truly willing to pay more for flexibility, the percussion continued but was somewhat muted.

Certainly this movement towards sustainability is to be applauded. But I'm going to curb my excitement for the moment and consider some cold, sharp realities of the market before I break out in a warm, fuzzy feeling. There are a few barriers to leap before the market earns the right to start congratulating itself on hurdling the whole sustainability issue.

The first is availability. The Green Building Council estimates that 95-98 per cent of office stock is five years old or older. The vast majority of these buildings aren't a patch on the sustainability performance of the latest generations of office towers and groundscrapers. Even if 70 per cent of corporate real estate occupiers wanted to move to greener space tomorrow, they couldn't. The environmentally friendly space just isn't available.

In Brisbane and Perth, office markets are tighter than an Australian Taxation Office inspector's grip on business deductions. Tenants in these capitals take what they can get because there are precious few alternatives. Also, just because more CRE decision-makers claim they are willing to admit to a survey they would pay 10 per cent or more for space, but just sit back and watch rents accelerate faster than that in most Australian capitals over the next 12 months.

According to Jones Lang LaSalle, gross effective rents jumped 68 per cent in Brisbane in the year to June 2007, and by 44 per cent in Perth. Sydney was up 11 per cent for the period, and Melbourne rents rose by 10 per cent.

I suspect the real beneficiaries of sustainable space will be those tenants smart enough to secure workspace on leases that enable them to take into account the savings in outgoings that sustainable space delivers. Utilities such as water and power will only cost more in the future, and it is probably only a matter of time before the planning system dreams up the impost of a "green levy" too.

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