World Built Environment Forum

The RICS Global Commercial Property Monitor (GCPM) and Global Construction Surveys were used to draw on the expert opinions of nearly 4000 real estate professionals operating across the world. In the Q1 2019 survey period, respondents were asked a series of additional questions focussing on investors attitudes towards climate risk factors, and how these have changed over recent years.

Investors' attitudes towards energy efficiency and resilience factors

Survey feedback from across the construction industry, at the global level, suggests that investors are now (on balance) taking greater consideration of energy efficiency in building designs than was the case two years ago. Around 30% of respondents believe energy efficient buildings and those that rely on more renewably based inputs are being increasingly viewed as an attractive form of investment. At the same time, a slightly larger share of respondents (36%) feel that, while investor focus has generally shifted in this direction over the past two years, it is still currently limited to a few niche investors.

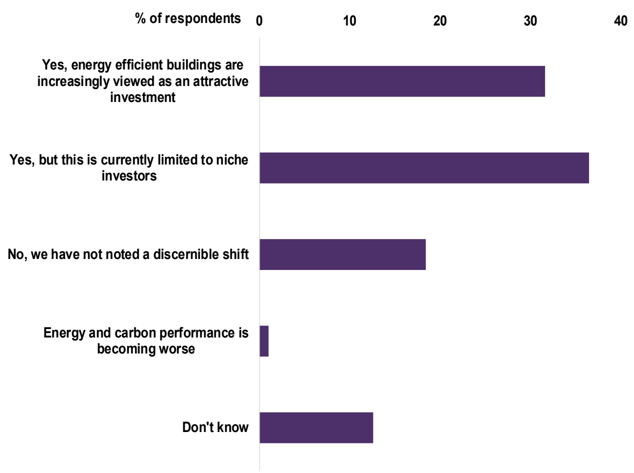
Encouragingly, at the other end of the scale, only 1% of contributors feel that investors' interest in energy and carbon performance of buildings has declined, while around one-fifth have not noticed any discernible shift in attitudes compared with two years ago.

Despite climate factors seemingly carrying more weight in the decision making process of investors now, relative to previous years, it still appears that other considerations take precedence. Indeed, a majority of survey participants stated that although investors express interest in resilience-related factors (e.g. adapted to climate change or able to adapt to disruptive technology), underlying decisions are still based on more traditional cost matters.

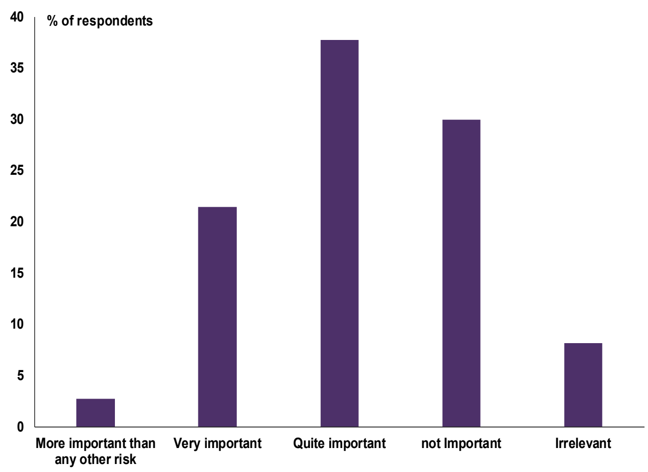
This concurs with the views of professionals working specifically in the commercial real estate sector, with the largest share of GCPM participants worldwide (38%) sensing that climate risk factors are only 'quite important' for investors. Furthermore, when combined, an equal share of 38% also suspect that investors view these risks as either 'not important' or 'irrelevant'. When the results are disaggregated, this perspective appears more prevalent across the Americas (50% of respondents) and the UK (46%).

As such, it looks as if there is still a long way to go before resilience and sustainability are at the forefront of mainstream investment decisions across the built environment sector, even if recent years have seen some positive progress.

Compared to two years ago, has investor focus shifted towards building designs that are energy efficient and carbon neutral?



How important do investors consider climate risk factors when making decisions?



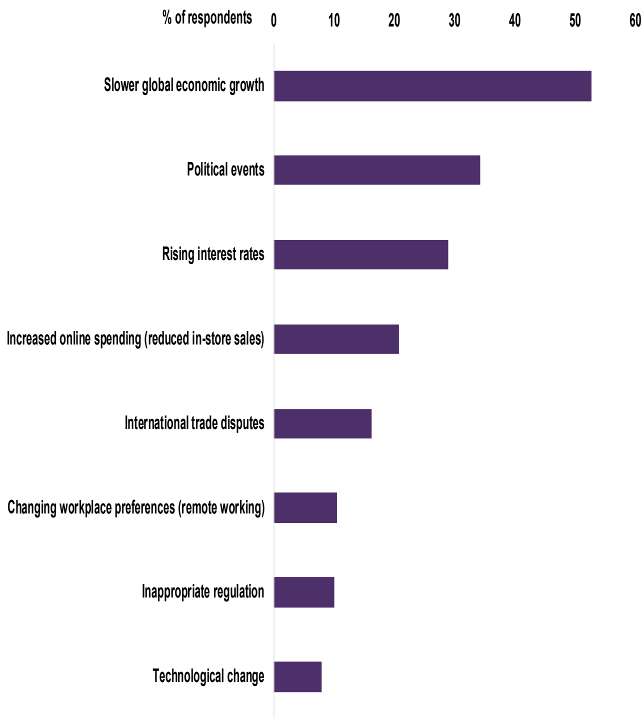
Commercial Real Estate Investment Returns

Also through the Q1 2019 GCPM, respondents were asked to identify the greatest risks to returns on commercial real estate investments over the coming three years. The aggregated results show 53% of respondents worldwide feel slower global economic growth poses the most significant downside risk. What's more, even when broken down by broad region, the global economic outlook came out as the top risk across all areas (APAC, Europe, the Americas, the Middle East and Africa). This assessment is understandable given the noticeable loss of momentum in the second half of last year, while the IMF now expects global economic growth to ease further in 2019. Having said that, the Fund's latest projections through to 2022 remain relatively solid despite being downgraded relative to their previous forecasts.

Aside from the macro outlook, future political events are seen as presenting the next most substantial threat to commercial real estate returns at the global level. Predictably enough, given the ongoing uncertainty emanating from Brexit, politics came out as the most significant danger to investment returns in the UK. Interestingly, however, respondents across the rest of Europe view the prospect of higher interest rates as a greater risk (albeit by a narrow margin), while this perception was also shared across the Americas.

The growing shift towards online shopping at the expense of in-store sales is already causing considerable disruption across retail markets in many parts of the world, and it is little surprise that this issue ranks highly on the list of risks globally. Secondary retail locations in particular have come under pressure and it seems highly likely that changing consumer preferences will lead to further store closures and rising vacancies over the medium term.

What poses the biggest risk to Commercial Real Estate returns over the next three years?



*Survey participants could select up to 2 options

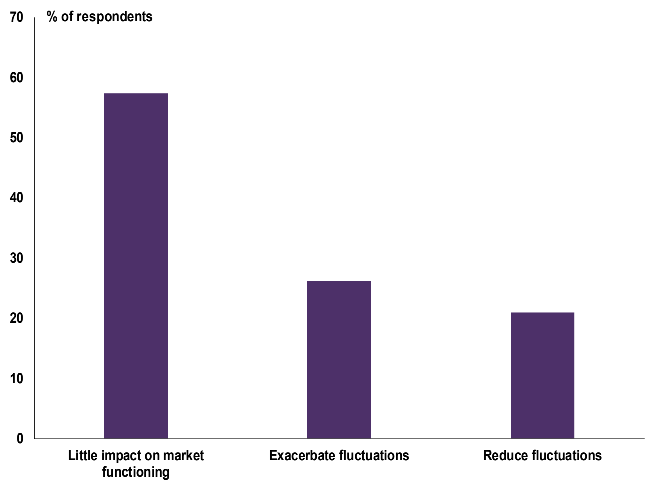
Automated Valuations

Overall, survey participants appear a little sceptical on the potential benefits of automated valuations across the commercial real estate sector, at least in terms of the impact on the property cycle. Indeed, 26% of respondents are of the opinion that greater use of automated valuations would actually exacerbate fluctuations in values, slightly higher than 21% who felt it would reduce volatility.

Nevertheless, 57% feel automated valuations would have minimal impact on market functioning if introduced on a greater scale in the future. If that were the case, then, enhanced automation in valuation could lead to significant time savings. This could allow more effort to be focussed on other aspects of the process, perhaps ensuring valuations are of higher quality.

Of course, the success of all this would depend on the quality, availability and transparency of data which, for the time being, is not shared sufficiently (for both commercial and sometimes legislative reasons). Understanding the underlying workings of automated valuation models will also be important and some of the more sophisticated methods could present challenges.

What impact do you think greater use of automated valuations would have on the property cycle?



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We accredit 118,000 professionals and any individual or firm registered with RICS is subject to our quality assurance. Their expertise covers property, asset valuation and real estate management; the costing and leadership of construction projects; the development of infrastructure; and the management of natural resources, such as mining, farms and woodland. From environmental assessments and building controls to negotiating land rights in an emerging economy; if our members are involved the same professional standards and ethics apply.

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