The significance of sustainable assets is increasing steadily and this sector is growing faster than the market as a whole. Of the approximately 27.9 bn € which BNP Paribas Real Estate surveys show was invested nationwide in single commercial properties in Germany in 2014, almost 5.3 bn € went into certified green buildings – in other words, sustainable investments attracted close to one euro in every five. This was more than 3 % up on the prior-year total and also the best result since the first sale of any buildings registered for certification. That was in 2008 – and at that time, green buildings accounted for only just over 5 % of the aggregate investment volume.

Despite impressive growth rates, most of the activity is confined to large and frequently prominent buildings. In fact, more than half of the relevant turnover was generated by sales in the triple-digit million range. If transactions of between 50 m € and 100 m € are included, the proportion comes to almost 80 %. In view of this, it is hardly surprising that the hot spots for green buildings are Germany’s major cities. By themselves, the Big Seven locations (Berlin, Cologne, Düsseldorf, Frankfurt, Hamburg, Munich, Stuttgart) account for a market share of more than 80 %. The clear-cut leader in this respect is Munich, where over one billion euros was invested in certified buildings. Then came Hamburg, Berlin and Frankfurt. Well-known examples are the Upper West development in the best part of Berlin’s Centre West district (DGNB preliminary certificate), the Mona in Munich (LEED Gold) and the IBC (LEED Gold) in Frankfurt.

Similarly to the geographical focus, the range of market players particularly interested in sustainable assets exhibits a distinct concentration: they are primarily equity-strong core investors often geared more to properties in high-grade locations which offer long-term value stability rather than to high yields. One reason is certainly the fact that many such investors are subject to statutory regulations and conditions and are more in the public eye, making them particularly careful about what they do. In 2014, open-ended property funds, for instance, deployed almost half of all their invested capital in acquiring green buildings. A similar orientation to sustainability is also exhibited by insurances and sovereign wealth funds, with proportions of 37 % and 35 % of their investment volumes respectively.
MARKET FOCUS - INVESTMENT MARKET GREEN BUILDINGS — 2014

OFFICE BUILDINGS NOW ACCOUNT FOR ONLY AROUND 50%

The increasing significance of sustainable buildings is underlined by the fact that this trend now extends to other asset classes as well. Whereas initially the green building movement was confined almost entirely to office properties, retail buildings and logistics complexes have also started to become strongly involved in this movement. All the same, offices still account for the lion’s share of all certified structures, with more than 53% of the total. The relevant figures for the retail and the logistics sectors are 21% and just under 18%. One prime reason for this upward trend is that occupants are imposing more demanding requirements.

SURGE IN CERTIFICATION FOR EXISTING BUILDINGS

One further trend has also been gaining momentum: the certification of existing buildings. Obtaining certification as a sustainable asset was originally restricted almost exclusively to new buildings, but now, the process is being extended more and more to older stock as well. Increasingly, bigger investors and asset managers are pursuing a strategy of improving the energy efficiency and the sustainability of their entire portfolios in order to optimise the marketing and onward letting potential for their older assets, too. One consequence is that in 2014 existing buildings accounted for just over 30% of all newly certified properties.

DIFFERENT LEADERS IN DIFFERENT SECTORS

In 2014, DGNB (the German Sustainable Building Council) accounted for around 69% of all certifications (2013: 71%). BREEAM took second place for the first time with about 16% (14%), thus relegating LEED to third place with just under 16% (15%). BREEAM’s success is due to the growing number of applications for existing stock to be certified – here it heads the market with a share of nearly 50%, ahead of DGNB and LEED, which have more or less equal proportions of the total. It should be noted that existing-stock certification covers the whole field of older buildings, including core refurbishment projects, for example. In the new-building sector, DGNB is the market leader with about 87%.

OUTLOOK

Sustainable assets are a highly dynamic field. And how will things go from here? Will the built environment one day be entirely green? At any rate, it is a fact that in the larger cities hardly any new construction projects forgo certification nowadays. This trend will continue, eventually making the proportion of uncertified properties in these locations marginal. One prime reason is that for the managements of many large companies, sustainability is now a declared goal, and this makes moving into non-certified premises an unacceptable option. For the commercial real estate markets, this means that the coming years are likely to go on producing a high and probably growing proportion of "green investments", with sustainability taking on the significance of a general principle.