

# ESG considerations for Guernsey's commercial property market

As ESG considerations feature ever more prominently for businesses, senior associates Laura Bougourd and Alison Wood of Mourant's Guernsey commercial real estate team look at what this means for commercial property in the island.



Although Guernsey might not be subject to the same level of regulation as other jurisdictions, environmental, social and governance (ESG) issues are featuring highly on the agenda for many businesses and institutional investors. As such, ESG considerations are increasingly influencing the activities and decision-making processes of these entities and are therefore becoming more relevant to the island.

## What sorts of ESG issues affect commercial property?

Research has shown that buildings are responsible for nearly 40% of annual global carbon dioxide emissions. Of these, 28% come from building operations, i.e. day-to-day use, and the remaining 11-12% from building materials and the construction process.\* As such, commercial property is a key focus for any business seeking to reduce their carbon footprint as part of its overall ESG strategy.

### Developing vs letting

Where a new property is being developed, ESG considerations might require a developer to use more sustainable practices and materials despite there being no statutory requirement for Energy Performance Certificates or an equivalent in Guernsey.

We have seen incoming tenants require that a building meets certain standards of energy efficiency or achieves a certain BREEAM (Building Research Establishment Environmental Assessment Methodology) rating.

### What about green leases?

With a newly developed building, the tenancy obligations are likely to be seeking to maintain the energy-efficient position. However, where a building predates ESG considerations, there is room for improvements to be made.

Although landlords and tenants will each have their own separate ESG objectives, including green provisions within a lease will require the

parties to work together as they are likely to impact on issues of service charge, repair and alterations as well as reinstatement, all of which are key lease considerations.

There is no specific template for a 'green lease' but this term is generally used to describe provisions that encourage or require the landlord and tenant to reduce the environmental impact of the premises. For example, green lease terms might include making a building more energy efficient, controlling water management, waste management, using sustainable building materials and encouraging the use of green transport.

## Why should those with an interest in commercial property take note of ESG?

Aside from the wider climate change and global-warming implications which people are familiar with, it seems it is only a matter of time until the financial implications of ESG are felt in relation to commercial property interests.

In reality, it is likely to be the financial impact which acts as the catalyst for greater change, with stakeholders seeing a 'green premium', with more sustainable properties commanding higher rents from tenants (who should then benefit from lower operating costs in return), or conversely a 'brown discount', with those less environmentally friendly properties having to offer reduced rents.

### In conclusion ...

ESG is here to stay. Nearly all commercial occupiers will have ESG considerations and will be required to see that reflected in the terms of their lettings.

Those with interests in commercial property should ultimately benefit from investing in making those properties more sustainable and environmentally friendly, whether that is by increasing the value of their investment or benefitting from lower running costs.

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\*Deloitte 2022 Commercial Real Estate Outlook - Architecture 2030 "Why the building sector?" 2021