

Greening the built environment

Baringa's Climate Change and Sustainability Trailblazers Podcast

Emily Farrimond: So hello and welcome to our Climate and Sustainability Trailblazers podcast with me, Emily Farrimond. And today we're going to explore an area which has been a real personal interest for me for quite some time. And that's the topic of greening the built environment. You might ask why I'm so passionate about this topic, and frankly, it's because in the UK we have some of the leakiest buildings in the world, with over 40% of the UK's emissions linked to the built environment. It's a complex topic, with huge social and just transition implications associated with it. So it's not only an area where we need to reduce our emissions, but it also has massive potential, both positive and negative, people impact in terms of their quality of life. It also intersects so closely with nature and biodiversity, and can be a real critical enabler for us as a country in increasing biodiversity. So I'm absolutely delighted to say that today, helping us explore this topic are two people who are equally, if not more, passionate about green the built environment and are also exceptionally well qualified to help us explore this. Firstly, I'm delighted to welcome David Willock from Lloyds Banking Group. David is the Managing Director for ESG Finance and Structuring and supports clients across all corporate sectors. He represents Lloyds on a number of ESG and greening the built environment forums, and has a specialism specifically in the built environment. I know he's really excited as he's about to graduate from Cambridge with a master's in this topic, and is soon to become an expert lecturer there too. Joining David is Rebecca Teasdale from our Low Carbon Solutions team at Baringa, and Becky leads Baringa's Green Buildings and Transport Forum, where we bring together a cross-industry section of different participants to work through some of the key issues facing the market in the transition to green buildings and vehicles. Becky works across the decarbonisation ecosystem with energy businesses, governments, financial institutions and investors taking a systems wide approach to solving built environment challenges. Welcome, David and Becky. Thank you for joining us. And can I say how delighted we are to have you on the podcast.

Rebecca Teasdale: Great to be here.

David Willock: Yeah, thanks for having me.

Emily Farrimond: So firstly let me start with you, David. I'm really interested to hear your perspectives on greening the built environment. What are the challenges and why is it important?

David Willock: Yeah. So I think, it is one of the, the tougher nuts to crack, I think in terms of decarbonisation. And I think, you know, I could list a lot of different things, but I've tried to distil it down to a couple of areas. I think where I start with it is what does good look like? And what I mean by that is there's actually been quite a lot of emerging standards, both domestically, within sector, within policy globally. So I think that's been one of the challenges over the last sort of maybe decade and beyond, really, what is it that we're looking for and how do we achieve decarbonisation. And we can unpack that a little bit more. I think it's great that we're here today and Becky is here because the other big challenge is, you know, heat and decarbonisation of heat, it's a huge part of the story, for the decarbonisation of the built environment. And that's got its challenges. But it's got its, you know, upsides as well. So that's one of the big topics for us at the moment. I think the third thing is, is what I've bundled together is like a complex

journey. And what I mean by that is when you actually look at the built environment, it's actually quite disruptive to get from where you are today to where you need to get to at a buildings level. It's disruptive, and not everyone likes disruption. But the other thing is it's a quite complex financing journey as well about who pays, when do you pay, how do you pay, and all that sort of stuff. But then when you actually get at a building's level, again, the technology, there's some complexities about that journey. But finally there's a sort of skills bit as well. Who's going to do it? When are they going to do it? Have we got the right skills? So I think that complex journey bit is right at the centre for me. And I think finally, just to kind of sum up about why it's challenging, I guess I look at the lack of progress actually as a, as a proof point. And so when you when you look at the IEA's global stocktake on buildings, when you look at the, CCC's stocktake on buildings and you look at things like UK Green Building Council's Whole Life Carbon sort of stocktake for Cop 28, all of them point to quite a, stark lack of progress in the sector, which goes back to me thinking, yeah, this is a really tough nut to crack.

Emily Farrimond: Yeah, I couldn't disagree with any of that. So thank you for sharing those thoughts, David. And I guess it's quite interesting given the role that you play at Lloyds Banking Group again, what are your perspectives on the importance, and the relevance of the role that banks need to play in greening the built environment?

David Willock: Yeah. So I think where I start from anyway on this is, you know, the real estate sector in the built environment plays, you know, to a greater or lesser degree, depending on which organisation you're looking at. It's a huge part of balance sheets. So actually straight away, what role do they play? Well actually as a financial actor they're really significant. And that can manifest in mortgages, it can manifest in house building, social housing, but also things like insurance. So I think the role that banks and other financial actors play in this sector is really crucial, particularly when you look at things like the UK and the how the UK built environment is financed, you know, between equity and the debt markets. But I think when I then try and bring it back more tangibly to, to what can banks do, what's the role they can play? I kind of try to think about it in three sort of areas. And I'll come on to like below the line some other areas, but I think the core ones are around education, actually. When I've been working with clients in this area for nearly a decade, not quite that long, just just a little bit off. And actually everyone's on different maturity curves about their own strategy and asset level at the company level. So I think banks can play a role with their intellectual capital, but also their financial capital to help educate around going back to the what does good look like, but also some of the challenges and opportunities. I think the second is around tools. I think big financial institutions have that ability to put things in the market that can really help people think through some of these challenges, and that's not just specific to the built environment. We've seen that in other sectors. And I think the bit that you'd probably expect me to say is finance. And I think where that comes into it is I think of it in two little sub pillars. One is about green finance, you know, sort of finance that's there to fund green buildings. But I also think probably more materially about the greening of finance. And this is that sort of paradigm shift of how do you embed green or net zero into real estate finance? And I think they are my core ones, but I think below the line depending on where an organisation is, I do think walking the walk is really important as well on your own estate. We've got branches, we've got offices. I think you've got to increasingly demonstrate that you're trying to do the tough stuff, but also you're not in any sort of hypocritical position, maybe. And the fifth is about partnerships, is about how do you make some more progress? But I think banks are really, really good spot to convene people as well, you know, whether that's government, whether that's clients,

but whether it's actually the other wider skill sets that we need to actually make some material progress.

Emily Farrimond: Thanks for sharing those perspectives. And it was interesting to me that when you listed your above the line items, you mentioned finance as the last. I was just interested to explore if there was any particular reason for that?

David Willock: I think it's obvious. It's kind of what people think. But but actually there was no prioritisation in those three. But but, I do tend to think just from a lived experience perspective, finance is what we're doing every day. But I think from my experience, you know, when we launched the Green Lending Initiative in 2016, what I really picked up through those client engagement in those five years is actually clients really wanted help. They wanted banks and others to come in and say, look, how do we get this done? So that's why I always sort of maybe start with education, and then sort of cascade down because finance should be what we're doing, day to day.

Emily Farrimond: Brilliant. Thank you for clarifying that. And then if I can just move on to you, Becky, if that's okay. In the introduction, I talked a little bit about the work that you've been doing across the ecosystem. And I know you've worked with many financial institutions specifically on this topic. What are your thoughts around the role that they need to play?

Rebecca Teasdale: I think to what David said around that education point, that's really key. It's a really complicated area for for consumers. They don't know they need to transition their homes. They don't know they need to improve them. But the impact our homes have on our lives is huge. And so by making those improvements, we can not only, you know, lower our bills, our heating bills, but we can also improve our health and well-being. And for me, it's the things that like Lloyds Banking Group have done themselves. So the great proposition that they launched last year on the solar side with Effective Home, and the one before that with Octopus Energy with heat pumps. Doing that is simplifying a very complex journey. It's providing the education, the information to the consumers, but then actually saying, look, we're working, we've done the hard work for you. We found someone that you can trust if you want to go and have a heat pump or solar installed into your property. You know, come and talk to one of our partners and see if they're right for you. There's no promises, but I think that's right. It's just that steer in the right direction of somebody that you can go to that you know, has gone through a little bit of extra rigour.

Emily Farrimond: Thanks, Becky. And that's very specifically you talked about homes there, I guess. Anything, any build you'd like to add around, you know, SMEs or companies, and how they need to consider and are struggling with this challenge as well?

Rebecca Teasdale: Yeah, absolutely. And the interesting thing with, with SMEs and small businesses there is they don't often have a direct relationship with their energy supplier. They buy their energy, or they procure their energy through brokers. And so that lack of direct relationship, and often then not a deep understanding within the business, you know, is not a priority for them around how to manage their energy just means they're actually even further back than some of the other larger businesses, and they need that extra support. And so partnerships in a similar way, which help link up the customer with access to the right information, the right insights, the right data, gives them the tools

and equips them with the ability to go and make the right decisions, so again help lower the impacts to that businesses as well.

Emily Farrimond: Fantastic. Thank you. And then just coming back to you, David, you talked about the global stocktake. You talked about the progress we are, or indeed not, making on decarbonising the built environment. I know also, through some of your research and work that you have talked about, and I know Becky and I often spend a lot of time discussing the circle of blame that we feel there is sitting in this space around the greening the built environment market and just that whole concept of lots of actors all looking at each other quite critically dependent upon each other, it feels like, but, you know, no one almost taking that leadership role and driving the action forward. I just really keen to understand your thoughts about how we break that circle of blame.

David Willock: Yeah. So, I try and keep my feet in both camps of sort of academia and business and, I think that's useful because at the end of the day, these things need to all come together if we're going to make progress on the built environment and generally. But one of the things that stuck with me that I learnt once was about this concept of climate change being a super wicked problem. And if people want to Google that, they can go and look at that, I won't drain that for the podcast. But I think what it effectively was saying is with climate change, there's no one actor that has authority, which makes it quite difficult, and actually the people that caused it are the people are trying to resolve it. So I think the built environment in that sense is like the super wicked problem squared, right? If climate change is really tough, the built environment is right at that centre alongside things like agriculture. But I think, you know, you're absolutely right. You know, what I've observed in my studies and also in practice is, you know, a number of different stakeholders will be looking to other parties. So occupiers as might be looking to owners and saying, "hey, I would love to occupy a greener building, you need to build them or you need to own them". Owners saying to developers, "I'd love to own them, but you need to build them". And I think bringing it back to now, we did a stocktake of our own actually, just in the run up to Cop 28, and we asked a whole heap of homeowners and also some other actors of SME investors, who they think is responsible. And they actually said, we want the government to be doing more and we expect more from banks as well. So you start to see how that circle of blame actually is very circular. But but I think how do you work through it? I think the sad thing is there is no magic bullet, else we would have solved it by now. And it goes back to what I said about partnerships. I think the only way through this is shared endeavour, really. And actually looking at what I'd call some of those systematic leverage points that are stopping us. So when we look into commercial real estate, for example, you know about access to data, about the split incentive between landlord and tenant, these are the really knotty things that we need to get ahead of to shut down that circle of blame. But I think elements of it are the quick wins. Where are the mutual benefit points? But I don't think we can wait for someone to come over the hill and solve it all for us. So I do, as we've seen, I think in policy, policy can be quite volatile on a UK perspective, in a global perspective. So I do say to clients, you know, that there's always going to be those that are sort of led by policy and those that want to go on regardless, but I don't think we should be, whilst it's it's incredibly important our clients tell us to have clear policy direction in this area, we can't in isolation wait for policy if we're going to achieve some of the net zero goals that we've got for the built environment and in other sectors.

Emily Farrimond: Great. Thank you David. And I guess, Becky, I know we've been working together on trying to solve some of these challenges and break that circle of blame. Any thoughts from you around where we've seen small breakthroughs or small wins?

Rebecca Teasdale: I think it comes back to that need to have the partnerships. Widespread action is required to encourage that kind of creation of demand, building of the skills and the supply chain, and making it super simple for consumers. I think starting to see some of this, this work is starting to bring out the good news stories will make such a difference. So, Rightmove for example, they publish some analysis and recent analysis on 300,000 properties that have been sold twice in the last 15 years that had upgraded EPCs start to show an additional green premium. So that's where you're selling a house, and it's gone from being an F rated property to C rated property, for example, and you're seeing an average premium there increase of £55,000, or from a D to C, so small a jump, but but still material here, it's around £11,000 for those properties. Analysis by Scottish Power and WWF in Scotland showed the average home value increasing if you had solar by 2%, for an EV charge points, it was raising it by 2.8%, and for heat pumps, 3%. It's things like that. It's about sharing that information, and it's about gathering that data and working together as an industry to use that data more effectively would really drive such a change here. A lot of it is the negative stories at the moment, and we need to move away from that and work together, as an industry to really drive that change.

Emily Farrimond: It's almost demonstrating that financial business case it sounds like for the green change and sustainable change in your home. So it's not just a new kitchen or a new bathroom that's going to add value, but actually...

Rebecca Teasdale: It's about no longer saying this is an energy problem for energy people, but this is a problem for everybody. It can have a financial implication, it can raise the value of your property, it can make your property a more comfortable place to live, it can boost the economy, it can, you know, have a real impact there in terms of the kind of the job opportunities and skills. There's a lot here. And I think we spend more time talking about those good news stories.

Emily Farrimond: Thank you. And David, you touched on earlier the changing policy landscape. I think we particularly feel that in the UK, but I know announcements we've seen from the SCC as well in the US means that we're never quite sure what target we're trying to hit at the moment. In the absence of policy, what are your thoughts around how the industry needs to work better together, and what role do you see Lloyds Banking Group playing in that, and what action are you currently taking?

David Willock: So yeah, I think tying that together with the point Becky was just making, going back to value, obviously we've had some economic volatility, political volatility over the last couple of years, you could argue you can go back quite a bit further than that actually to varying degrees. I sort of think about the built environment a little bit, you know, like hearts, minds and wallets and the wallet bit is really important. I think, you know, economic sustainability underpins sustainability. And I think when we're in tough economic times and we're not detached from that, right? The real estate market isn't detached from that huge rate environment changes, valuation changes in commercial real estate. As real estate professionals and sustainability professionals, we got to lean into that. You know, decarbonisation isn't detached from the fundamentals of real estate. However, I think I completely agree with Becky's point. We need to make it

clearer - what is the upside? What is the economic case both immediately in the long term about decarbonisation? I think, you know, they are emerging. You look at academic studies, there's plenty out there. But then when you look at market studies, I won't name names, but there's been some really good studies in the last 12 months about showing correlation between sustainability, rental value, and also capital values. A bit more to do on risk in the long term as we think about, you know, physical risk and stuff. But I think going directly back to your question around what can we do? I think it's getting into the conversation with the right people. And what I mean by that is we spend a lot of time, we're partners with UK Green Building Council on advancing net zero, for example, we work with the sustainability reporting standards, for social housing we work with the NextGeneration Initiative. So I guess the way we're approaching it is we're bringing a financial, institutional lens to some of those bodies that are looking to address the big challenges when it comes to decarbonisation of buildings.

Emily Farrimond: Fantastic. And I guess turning that question to you then Becky, what are your thoughts around how the industry needs to better work together to drive some of the outcomes we've been discussing?

Rebecca Teasdale: I see some really great examples of this, you know, things like the, the partnerships that Lloyds have launched with Effective and with Octopus Energy. I think they will drive change, they are driving change, and we see other examples of that across the banking sector. And more of that is very much needed. I think there's also really great examples, as you mentioned, the Green Building and Transport Forum that at Baringa created. Actually getting people across the industry, so we have the banks, the energy retailers, the investors, the specialist organisations all around a table going through those problems and trying to understand it from each others perspectives and those nuances and actually, how can we work together? And we've seen that with some off the work that we've done then in terms of a great piece of work around supply chains and skills, that came on the back of one of those forums with Travis Perkins and Trustmark and ourselves going in and actually deep diving into the issues. What does it need? What's it going to take to grow this, industry? What do we need to do? What are our pledges? And it's more of that that we need. And again, we're seeing others, and Lloyds and us are involved in other initiatives at the moment, I won't name them here, but again looking at how do we work across the industry with housing developers, with social housing providers, with the banks, with the energy retailers to really kind of start to unpick these issues and work out how we work through them together, because that's how we'll make a difference.

Emily Farrimond: And I feel like from both of you that's been resonating. Partnerships and collaboration are absolutely key. I guess coming back to you, David, any further builds around that?

David Willock: Yeah. So I think another reflection I've got at the moment is, you've got to get underneath the headlines of this, this stuff. You know, we've had an era of five years where, you know, almost every institution and firm has sort of put sustainability higher up the agenda. But we have to get under the hood of some of these problems. There's no walking past. A house is difficult to get to net zero. So I think, you know, this is why I think we've both sort of chimed on partnerships and collaboration is because there's no shortcuts on solving some of this stuff. You've really got to get into the meaty detail. It's not going to be a sort of, you know, superficial journey. It has to really get into

the detail, and people need to understand the details of other people's context as well within the built environment system.

Emily Farrimond: Okay. Understood. And assuming, you know, you were talking specifically there about homeowners, you know, helping them to understand it might be uncomfortable for some time, but in the end they'll get to a home that's warmer, that cost them less money to live in, that emits less carbon.

David Willock: Yeah. So, Becky mentioned this and, yeah, some research that I read last year is sort of quasi research. BRE put out a whole piece about what the cost of low quality housing is, and these are crucial things. So I think what I've observed a little bit over the last five years is, sometimes financial institutions and other actors can be very carbon focussed, but clearly carbon doesn't operate in isolation of nature, but also in terms of social impact. And I think what I've really, I think it's really powerful that's emerged a bit more clearly in the last six to nine months, is a narrative around if these things are done at a property level, yes, they decarbonise the buildings, but they lead to better health outcomes, that lead to better financial outcomes. And I think this goes back to that value and wallet underpinning. You know, it can be, a co-benefit. And I think that there to be evidenced.

Emily Farrimond: And that led me perfectly, thank you so much David, to my final question, actually. And I was going to come to you first, Becky, if I may, around what are the other important considerations around greening the built environment? And can we touch on some of those additional benefits that it's not just about carbon.

Rebecca Teasdale: Absolutely, and Emily, you mentioned right at the beginning how we have some of the leakiest homes in the world. And if we look at just GB, we have around 31 million people living in these leaky, inefficient homes. We did some work last year with Citizens Advice where we looked at this, and did you know that poorly insulated homes actually increase the risk of heart attacks and strokes and, you know, increase the risk of mental health issues as well? It's a real issue that we need to be grappling with. And the work the analysis that we did said, okay, if you were to upgrade all eligible properties in GB to EPPC, which isn't as far as we need to go but it's a better level than we are today, and you did that by 2030, what would that look like? It would save potentially £2 billion to the NHS. I mean that's huge. It would have 650,000 avoided cases of child asthma. It's the quality of our lives were improving, that's the quality of 16 million people. You can't put a price on that. Not really. And I think that's for me is really important. The complete benefits that we looked at was around £40 billion of benefits to GB. But you know, looking at how you can stop overloading an already, you know, overloaded NHS, how you can improve patient care, people don't think energy has that impact, but it hugely does. And the more we can talk about that and understand that our houses and our buildings impacts our lives, impacts our productivity, our wellbeing, our happiness, then I think that's going to start to resonate. And back to your point, David, around the kind of the hearts and minds and wallets piece, it covers all of those areas in just a different way. So I think we really do need to be talking about this in many more ways than just carbon.

Emily Farrimond: Wow! And some real food for thought Becky, and definitely something which you can only imagine if more people were aware of that, the priority you would only hope and assume would be significantly increased around this topic. David, I think you were going to come in, perhaps with some thoughts and observations around

biodiversity as well, because obviously that's critical for us, it's critical for other industries, it's also very important for people's health and well-being. And it's very intimately tied to the built environment as well.

David Willock: Yeah. So, one of the interesting sort of emerging trends that I see at the moment is real estate assets or real assets, as they're sometimes called in financial markets, we've gone through a period of time where they're primarily serving a purpose, so be that a home or commercial use. But they're financial assets, you know, they've increasingly shown up in the financial balance sheets of global investors across the world. But they're also energy assets. And they're also social assets. But where I think it's quite interesting at the moment is there's some risks and opportunities to the nature side of that. They are nature assets as well. You know we are we're talking about real assets. They exist. They can contribute to energy. They can contribute to social value, both positively or negatively. But they can also contribute to nature. And I think, you know, I won't go into the details of, you'll know better than me about the depletion of UK nature stocks that's well documented. Now, the real estate sector has a lot to contribute to that, by physically existing, but also by the fact that new legislation has come in around new development. And this is something we really need to keep an eye on because it's, you know, demanding and requiring biodiversity net gain of a minimum of 10% for new developments in the UK. So this is a positive policy evolution, but for people out there involved in the sector, they need to be aware of this. But I think what I'm really looking forward to is, so what does good look like in that? Because that 10%, there's lots of different ways to achieve that. And obviously it's a minimum. You know, there's a whole heap of ways we can go way beyond that. So I think nature coming alongside on the rails of carbon is a really important trend, and I think the real estate sector can play a really big part on that, from tiny real estate all the way through to a place based approach.

Emily Farrimond: Fantastic and thank you for sharing that. I think it's wonderful to have such a rich conversation where we're not only talking about physical buildings, but actually the role they play in all of our lives and what more social value and nature based value they can add to the planet, essentially. So thank you both for your time today. I'm really sorry to say that we've run out of time, but David and Becky, it's been a real pleasure having you on the podcast. It's been so insightful and I'm sure will resonate and I hope inspire many of our listeners. For our listeners, if you're interested in learning more about this topic, then let me refer you to our website at baringa.com, where you'll find a number of white papers specifically addressing the topic of greening the built environment, including our work with both Citizens Advice Bureau and Travis Perkins. Thank you both again for taking the time, and thank you to all of our listeners. If you enjoyed the podcast, please do like, share and follow and look out for future instalments of the Climate and Sustainability Trailblazers.