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Don’t judge a building by its sustainability credentials

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Superficial assessments become an excuse for inaction

Steffen Walvius
GUEST WRITER
Sustainability lead, EGLS

has become the guiding principle of modern real estate.
y investor presentation is now laced with sustainability

KPIs and every manager is under pressure to demonstrate alignment with net zero pathways. Yet in the rush to badge assets as “green” or “brown”, investors risk making crude judgements that miss the real story.

Too often, a building is discounted at first glance because it carries an unfavourable EPC rating, lacks certification or falls foul of CRREM (Carbon Risk Real Estate Monitor) alignment. On paper, it looks like a stranded asset. In practice, with context, a credible transition plan and genuine engagement with the occupier, such a property can be transformed at a fraction of the feared cost.

The danger is that superficial assessments become an excuse for inaction. Investors either shun the asset or sell it on, leaving it in the hands of owners with no interest in sustainability. The better course is to accept responsibility for underperforming stock and improve it over time, even if the pay-off lies beyond a typical five-year hold.

Sustainability performance is messy. It cannot be captured in one neat number. Metrics are scattered across different standards, jurisdictions and time horizons. Yet most investment memoranda provide only a headline figure, leaving little space for nuance. Few investors have the technical expertise to probe deeper. The result is mispricing: buildings that look good on paper may offer little further upside, while those that look weak may in fact be ripe for improvement.

Take a simple comparison:

> Building A boasts a BREEAM Outstanding rating, an EPC A, a green lease and a solar PV roof.
> Building B has no certification, an EPC F, CRREM misaligned, no panels, and a short lease.

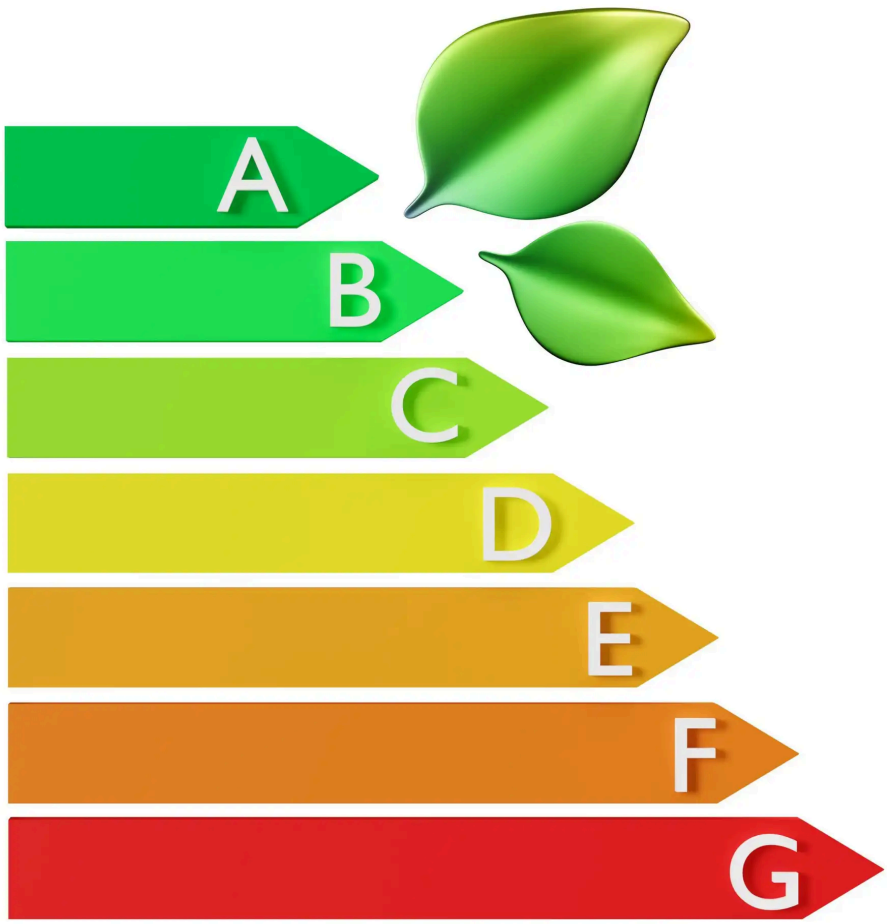
At first glance, the winner is obvious. But look again. Building A’s certification is based on an outdated standard, its PV array [illegible]s the grid rather than the occupier and the lease contains

only minimal sustainability clauses. Meanwhile, the tenant operates a nine-to-five work week.

Building B has clear deficiencies but also clear potential. It lacks LED lighting, its management system is unsophisticated and its tenant runs energy-intensive processes around the clock. Crucially, that tenant is willing to co-invest in improvements. With a collaborative roadmap, the building can be upgraded significantly, at lower capital cost than many investors assume.

Headline credentials are misleading

The lesson is straightforward: without context, headline credentials are misleading. From an asset management perspective, the headline sustainability credential is only ever one data point. Value comes from understanding how that asset sits in its market, what the tenant relationship looks like, and what scope exists to reposition it.



Energy ratings can be misleading without context

This is precisely where mispricing arises. Investors often fixate on EPCs or CRREM charts without context. That creates opportunities for those willing to engage, underwrite transition capex properly and structure tenant partnerships that de-risk execution. A discounted EPC “F” with a motivated occupier can offer better risk-adjusted returns than paying a premium for an “A” building that has little left to give.

This misperception also feeds a broader illusion. Many landlords are brimming with portfolio statistics on certified floor space, EU taxonomy alignment or average CRREM compliance years. But they skirt the harder question: are you actually helping to decarbonise the built environment or are simply curating the optics by walking away from lematic assets?

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The true test of leadership is not only in acquiring a gleaming portfolio of ready-made green buildings. It is in taking on the challenge of those that fall short and using expertise, capital and tenant collaboration to bring them up to standard.

Having recently partnered with European Green Logistics Space (EGLS) as sustainability lead, I see how a team that is both commercially minded and committed to environmental improvement approaches such challenges: not by discarding imperfect assets, but by treating them as opportunities to create value for investors and occupiers alike.

The five-year horizon is particularly important. A credible transition plan often runs beyond the typical private equity hold. The challenge is to match strategy to capital, pairing the right investor pool with the right asset story. Long-term capital can harvest the upside of repositioning. Short-term capital needs clarity on how improvements feed into exit liquidity and valuation. Both require narrative discipline: what exactly are we underwriting, and what does "success" look like at exit?

Being in the same room when risk is priced

Embedding sustainability expertise within investment teams is not just good practice, it is essential. Otherwise ESG sits on a parallel track rather than acting as an integrated lens. Sustainability colleagues need to be in the same room when risk is priced, cashflows are modelled or leases are negotiated. Only then does sustainability become a driver of NOI, yield compression and liquidity, not just a badge.

There is also a wider question as ESG matures: is it drifting towards a compliance-led discipline, focused on disclosure and reporting or becoming a core part of asset management, driving operational improvement and tenant engagement? If it turns into box-ticking, it risks losing its ability to generate alpha. The aim at EGLS is to keep ESG firmly integrated with investment decisions, capex planning and tenant strategy, not just the compliance report at year-end.

> *Developers may load bids with costly green features, pushing the price per sq m above a rival offering the bare minimum. Inevitably, an uneducated occupier prefers the latter"*

The same logic applies to new construction. Developers may load bids with costly green features, pushing the price per sq m above a rival offering the bare minimum. Inevitably, an uneducated occupier prefers the latter.

The smarter approach is to engage occupiers early, persuading them that sustainable design lowers operating costs or to enter tenders with a standard benchmark price and make the case for upgrades in the process that follows. Even if that fails, there is still scope to improve after delivery through a long-term engagement strategy. A benchmark building may not look good at completion, but an active landlord can retrofit and influence the tenant over time. That is real impact.

To make better decisions, investors should:

- Use all the standard sustainability tools but never treat them as the full picture
- Embed sustainability expertise within investment teams to interpret data and drive execution
- Start with insight, not capital: understand operations, optimise existing systems, then plan upgrades

Engage with tenants to align incentives and share investment costs. Do not judge a building by the cover of its sustainability credentials. What looks brown today may, with the right strategy and commitments, become a green performer tomorrow. The real leadership test is not how much “green” we buy, but how much we create.