

Green buildings make economic sense

With rising operating costs and the economic slowdown in SA likely to affect commercial property developments within the next few months, it is an opportune time for developers to explore the business case for green buildings, says Nedbank Corporate Property Finance Gauteng Regional Executive Ken Reynolds.



Nedbank's Ken Reynolds says that green buildings are now more affordable and are likely to attract higher rentals in future. Image: [SA Commercial Prop News](#)

He says that increasingly, there are significant advantages to developing new buildings or redeveloping existing buildings along green principles. "One of these is the reduction in operating costs that green buildings can deliver. Already, Nedbank has found that building or retrofitting properties using green design principles has the ability to reduce operating costs by around 30% a year," he said.

Reynolds says that technological developments, cheaper input costs on green materials and higher electricity tariffs mean that organisations are often able to recoup the cost of green designs and construction within a three-year period.

"The market has moved on when it comes to the upfront costs associated with green buildings. In the past, there was a premium to pay for developing Green Star buildings, possibly as high as 5% for a four-star building. However, this premium has substantially diminished," he said.

Payback within five years

For example, previously, there was virtually no payback from installing photovoltaic cells. Now, it is possible to receive payback within five years. Historically, there were limited green products, such as eco-friendly paint, on the market, and so developers had to pay a premium for these.

That, however, is no longer the case as suppliers across the board are more aware of the demand for such products and are stocking them, he says.

Reynolds says green properties are likely to experience lower vacancy rates in the future and potentially charge higher rentals. Buildings that are designed to accommodate energy efficiency and carry features that focus on environmental sustainability, are likely to become more attractive to more tenants across commercial, retail and residential property.



Standard Bank's 'green' building in Rosebank. Image: [Green Business Guide](#)

"Many corporates are insisting on having a green rating on their buildings in order to reduce their carbon footprint, improve staff working conditions and project a certain image," Reynolds says.

"In addition, lower utility costs on these buildings means owners can charge more for the base rental, while still maintaining flat net rental costs for tenants," he says.

As a result, premiums in net rentals of up to 10% are achievable and the capitalisation rate applied to the property to derive its value may show an improvement of up to 50 points. Reynolds says that there are also advantages for developers of green buildings from a financing perspective.

"The higher rentals and increased capital values mean developers and owners can often attain a better credit rating and increased access to borrowings."

He says Nedbank, as part of its Fairshare 2030 programme, is committed to ensuring 1% of its lending, or R6bn, is allocated to "future-proofing" SA, which includes socially responsible lending and carbon footprint reduction.

Source: Business Day via I-Net Bridge

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