



Financial Sustainability

Dimension #7

Financial Sustainability

[FS]

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Indicators

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Introduction

Financial Sustainability is about recognising that, if considered holistically, financial returns and sustainability can go hand in hand. By making this explicit in the SDF, we can understand and embed the commercial implications of being more sustainable, and open up the conversation around sustainability in the broadest sense.

It is also one of our core objectives to provide a steady, increasing and sustainable stream of revenue that can be invested in London's transport network, improving it for the benefit of all Londoners.

In line with this thinking, we have developed a set of Indicators that both acknowledge the need for financial returns and help us mobilise sustainability as a means of enhancing them.

They include:

- Use of Green Finance to reduce the cost of capital;
- Deployment of Green Leases to capture sustainability-related operational benefits; and
- Capturing the financial implications of sustainability – positive and negative – in our financial appraisals and decision-making and capital allocation.

Applying these Indicators allows us to understand the impact of sustainable measures on our financial returns. With this knowledge we are able to maximise the overall performance of projects while ensuring they remain viable, and deliver more robust financial returns for investment in London's transport system.

How to use this guidance

The TfL Sustainable Development Framework (SDF) is designed to be applied to any form of development, from small sites to large regeneration master plans and from housing projects to mixed-use and commercial schemes. The Framework's strength lies in its ability to highlight synergies that would ordinarily go unseen or opportunities that could otherwise be overlooked. It does this by providing the technical tools to measure and balance performance sustainably at every stage of delivery, and we recommend that the SDF be built into a development project as early as possible.

These technical guidance documents provide the detail that sits alongside the Sustainable Development Framework Handbook. Together, they create a freely available tool to be accessed and used by anyone building sustainably.

The technical documents are designed to help a project team calculate and manage individual indicators effectively, and include an explanation of how each indicator is calculated and how it can be used in parallel with the RIBA Stages of Work. The initial part of the guidance offers an overview of the particular Dimension, and is followed by detail on each indicator.

The initial part of this guidance is designed to be accessible to everyone involved in a development project. It offers an overview of the particular Dimension and detail on each indicator, setting out the essential elements you will want to know to understand how the indicator works, the ways in which it can add value to a project, and how it is calculated. The later sections are more technical with a step-by-step approach to implementing the SDF in practice.

As we consider the SDF to be a living document, we continue to test, balance and refine the Framework on our projects, and alongside best practice research and industry standards. Throughout a project's lifecycle therefore, performance data for relevant indicators in terms of targets, policy and process should be collected regularly, recorded and kept up-to-date.

The aim is to gain an understanding of the opportunities and constraints within a development site. By using the indicators to help identify a project's strengths and weaknesses, strategies, interventions and design tactics can be adjusted to deliver the best overall results. Adopting a holistic approach to the indicators will identify the cases where improving or reducing the performance of one indicator may affect the performance of another. By taking into account how indicators relate to each other, more can be made of the process to find efficiencies and balance, and to optimise projects.

Each indicator in the technical guidance document is presented in the same easy-to-follow format, under the following headings:

Introduction section
.....

What is it?

A summary of what the indicator is and what it aims to achieve and measure, with some background information.

How does it add value?

A synopsis of the importance of the indicator and the benefits it brings to a project.

From the summary and synopsis, the reader should be able to understand the context of the indicator, and also describe why it is an important component of sustainable development.

Infographic overview
.....

What type of project does the indicator apply to?

Each indicator is categorised according to whether it is to be used for residential, commercial and/or masterplan projects. There may also be a threshold of project size for applicability.

Who is responsible?

It is assumed that the development manager for the project is responsible overall, and this list outlines which professionals or consultants lead and/or support the delivery of the indicator.

RIBA stages

The RIBA Plan of Work organises the process of briefing, designing, constructing and operating building projects into stages from zero to seven. This illustration identifies when the indicator is relevant during a project’s lifecycle, as well as the types of action that happen at each RIBA stage.

Connected UN Sustainable Development Goals

Identifies linkages between the SDF and the United Nations (UN) Sustainable Development Goals.

Connected SDF indicators

A useful list of other indicators that have a relationship with the indicator being described.

Methodology section
.....

How is it calculated?

This section details the way in which each indicator can be calculated. It is often accompanied by an illustration, or a direct link to a relevant external methodology. This may be written in more technical language and is intended for the relevant project consultant to understand exactly what information is required by the indicator.

Scoring infographic

A summary of the metric type, its units, and the targets for Good and Leading Practice. Some indicators will have a pass/fail metric, in this instance a pass would be Leading Practice.

What is the process?

Following the eight RIBA Plan of Work stages, this part describes the key actions that need to take place, and who is best positioned to carry them out. This is accompanied by a summary of the documents and reports that support the work.

The SDF process assumes that a full planning application would be submitted at the end of RIBA Stage 2 and that tender would happen at the end of RIBA Stage 4.

Actions should be adjusted as needed for projects working to alternative programmes.

Additional information section
.....

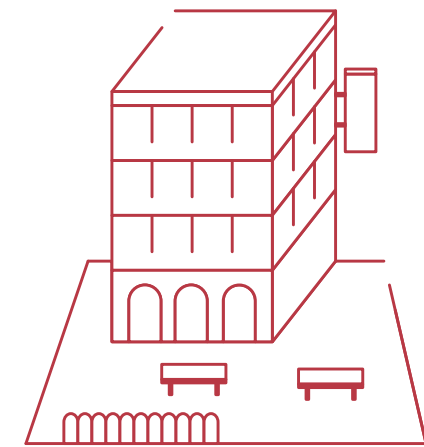
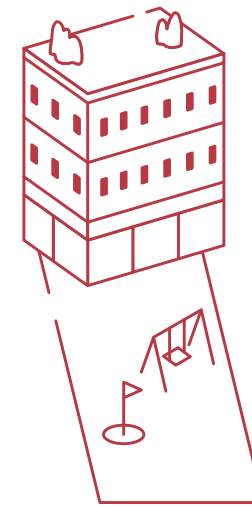
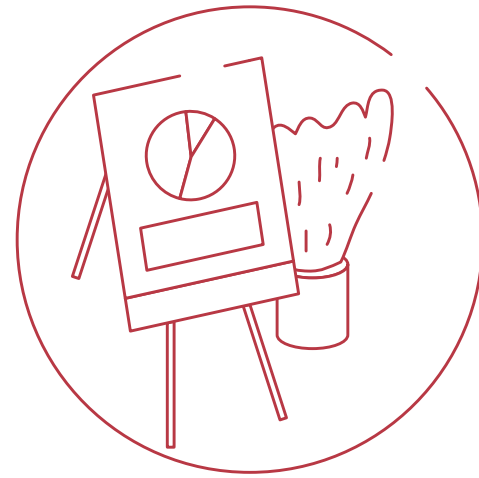
Relevant policy

A summary of the key policies that relate to the indicator, and that have helped to shape it. This list is not exhaustive, but provides a useful background.

Further reading

A list of additional sources of information on the indicator.

Indicators



ID no

Key Performance Indicator (KPI) name

FSI Geared Internal Rate of Return (IRR)

What is it?

This indicator focuses on a metric used to evaluate a project’s potential profitability, called the internal rate of return (IRR). This measures the average annual financial return of an investment; if the geared IRR is higher than the ‘hurdle rate’ (that is, the net present value is equal to or greater than zero, based on the hurdle rate) – a minimum target return – it is deemed a project financially worth delivering.

IRR is based on allowing for an entry cost for the project and future discounted cashflow analysis, which ‘discounts’ future incomes and costs over time to reflect risk, uncertainty, and inflation.

The geared IRR analysis should take into account both the costs and benefits of sustainability features across the lifecycle of a project. In this way, a more holistic picture of the project’s costs and the sustainability benefits, allow for clearer decisions on green features.

How does it add value?

Calculating the return on investment is a standard part of project finance. This is a key metric to allow comparison between alternative investment opportunities. It is important that this calculation takes sustainability into consideration at the earliest stages. This allows informed decision making around sustainability to maximise value, reduce costs of delivery, and drive a better overall financial return.

What type of project does the indicator apply to?

- Residential
- Commercial
- Masterplan
- Industrial

Who is responsible?

Financial Analyst	● ● ●	leading
Development Manager	● ● ○	accountable
Cost Consultant	● ○ ○	supporting
Commercial Advisor	● ○ ○	supporting
Sustainability Consultant	● ○ ○	supporting

RIBA Stages



Connected UN Sustainable Development Goals

- 8 Decent Work and Economic Growth
- 9 Industry, Innovation and Infrastructure
- 11 Sustainable Cities and Communities



Connected SDF indicators

- Green Finance
- Green Leases
- Net Hypothecated Value
- Sustainable Operations Management

How is it calculated?

A geared IRR is a standard financial modelling output and is used as part of the development appraisal process. This should incorporate, among other items:

- Up-front capital expenditures, including construction costs, land costs, and consultancy costs
- Future revenues, including sales and rental revenues
- Income from equity/debt
- Costs of and repayment of equity/debt
- Cost and income inflation
- Depending on the project type, lifecycle capital expenditures (covering a period of 10 to 30 years), including for maintenance and replacement
- Depending on the project type, lifecycle operating expenditures (covering a period of 10 to 30 years) that accrue to the developer and/or operator

When projecting revenues and costs, financial models should specifically consider and incorporate the following sustainability-related impacts, where applicable (not all the below will be relevant for all projects):

- Additional consultancy costs
- Construction cost increases and/or reductions (for example, the additional cost of improved landscaping or decreased cost due to embodied carbon value engineering)
- Replacement and maintenance cost increases and/or reductions (for example, the additional cost of replacing cheap, less durable materials or decreased cost of installing future-proofed energy systems)
- Operational expense increases and/or decreases (for example, decreased energy or utilities costs for efficient buildings or increased cost of landscape maintenance)

- Additional revenue streams
- Rental and/or sales premiums (for example, rental premiums for BREEAM Outstanding certified buildings)
- Reduced cost of capital (for example, decreased interest rates or preferable payback terms in exchange for environmental, social and corporate governance (ESG) performance commitments; see FS03 – Green Finance)
- Faster absorption/leasing
- Decreased tenant turnover and vacancy rates
- Operational expenditure (Opex) savings recapture via green leases (see FS04 Green Leases)
- Enhanced capital values (upon asset disposal)

.....
Metric type	Units	Range
%	%	Confidential
Percentage	Percentage of total project geared IRR	

What is the process?

RIBA Stage 0 – I: Plan / Model

Development manager

Establish an early-stage development appraisal, including high-level cost and revenue assumptions around Sustainable Development Framework (SDF) delivery

RIBA Stage 2: Revise

Development manager

Update the costs of delivery and specific costs at a more detailed level

Financial analyst

Set out the full lifecycle appraisal of costs to include both capital expenditure (Capex) and Opex, using the lifecycle cost checklist. This should explicitly reflect Opex and Capex savings due to SDF indicators. Also, develop multiple cost models reflecting a baseline, Good Practice and Leading Practice for the purposes of comparison, and maintain these over the course of the development

RIBA Stage 3: Revise

Valuer

Assess the sustainability premium possible for rents and sales values, based on SDF features and take into account indicator FS04 Green Leases. These should be provided to the financial analyst for inclusion in the development appraisal

Quantity surveyor

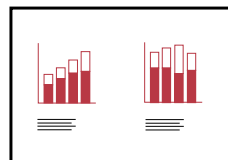
Assess the cost increases and/or decreases associated with the proposed sustainability measures in RIBA Stage 3 designs, and provide these updated figures to the financial analyst

Action

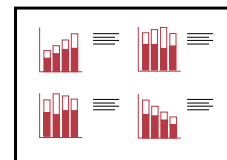
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Documentation

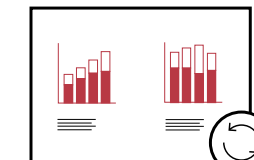
Documentation



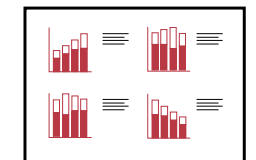
Development appraisal



Cost models



Development appraisal



Cost models

What is the process? (continued)

RIBA Stage 3: Revise (continued)

Financial analyst

Capture the potential savings from indicator FS03 Green Finance, update the income to reflect the green premium (if applicable) identified by the valuers, and update the cost benchmarks associated with sustainable features. Also, update the models to reflect baseline, Good Practice and Leading Practice lifecycle costs, making sure requirements for green finance and green premiums are explicitly linked and included in the cost models

RIBA Stage 4: Revise

Valuer

Update the projections for green premiums on sales or rental revenues (if any) and provide these to the financial analyst

Quantity surveyor

Update the cost schedule with any cost increases or decreases associated with sustainability measures, and provide these to the financial analyst

Financial analyst

Update the baseline, Good Practice and Leading Practice models in line with the design evolution, to reflect the changes to Capex and Opex costs, green finance and green premiums as the project develops

RIBA Stage 5: Revise

Financial analyst

Update the baseline, Good Practice and Leading Practice models in line with the design evolution, reflecting the changes to Capex and Opex costs, green finance and green premiums as the project develops

RIBA Stage 6: Conclude

Financial analyst

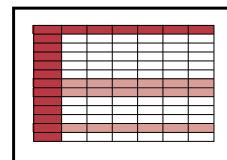
Finalise the cost models with the baseline to an as-built comparison of cost savings over the development lifecycle

Action

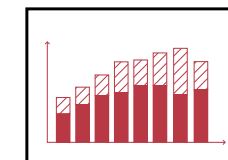
Action

Documentation

Documentation



Cost schedule



Cost model

What is the process? (c'd)



Further reading

- Building the Case for Net Zero, UK Green Building Council (UKGBC)
- Sustainability and ESG in commercial property valuation and strategic advice, Royal Institution of Chartered Surveyors (RICS), 3rd edition
- How BREEAM certifications impact prime Central London office rents, Knight Frank
- Net Zero and Valuations, IPSX/Carbon Intelligence

ID no

Key Performance Indicator (KPI) name

FS 2 Return on Equity (RoE)

What is it?

This metric focuses on how efficiently profit is generated from the equity invested in a property development project. Return on equity (RoE) is calculated by dividing the equity invested in a project by its net profits (on completion of the development) to obtain a percentage return. For example, if an investment of £100m equity generates a return of £120m, the £20m profit would represent a 20% return on equity.

The RoE analysis should take into account both the costs and benefits of sustainability features across the lifecycle of a project. In this way, a more holistic picture of the project's costs and the sustainability benefits, allow for clearer decisions on green features.

How does it add value?

Calculating the return on investment is a standard part of project finance. However, it is essential that this calculation takes sustainability into consideration at the earliest stages. This allows informed decision making around sustainability to maximise value, reduce costs of delivery, and drive a better overall financial return.

What type of project does the indicator apply to?

- Residential
- Commercial
- Masterplan
- Industrial

Who is responsible?

Financial Analyst	● ● ●	leading
Development Manager	● ● ○	accountable
Cost Consultant	● ○ ○	supporting
Valuer	● ○ ○	supporting

RIBA Stages



Connected UN Sustainable Development Goals

- 8 Decent Work and Economic Growth
- 9 Industry, Innovation and Infrastructure
- 11 Sustainable Cities and Communities



Connected SDF indicators

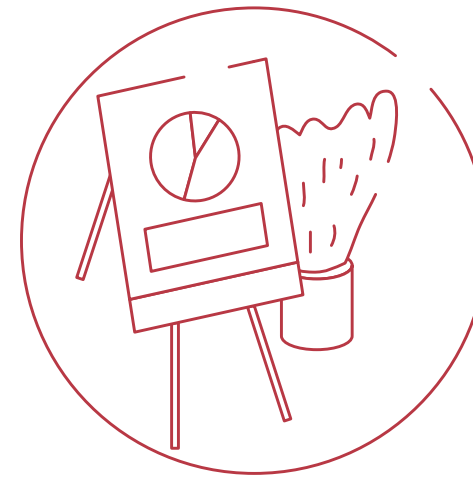
- Green Finance
- Green Leases
- Net Hypothecated Value
- Sustainable Operations Management

How is it calculated?

RoE is a standard financial modelling output and is used as part of the development appraisal process.

This indicator is calculated by incorporating, among other items:

- Up-front capital expenditures, including construction costs, land costs, and consultancy costs
- Future revenues, including sales and rental revenues



.....
Metric type	Units	Range
%	%	Confidential
Percentage	Percentage: return on equity	

What is the process?

RIBA Stage 0 – I: Plan / Model

Development manager

Establish an early-stage development appraisal, including high-level cost and revenue assumptions around the Sustainable Development Framework (SDF) delivery

RIBA Stage 2: Revise

Development manager

Update the costs of delivery and specific costs at a more detailed level

Financial analyst

Set out the full lifecycle appraisal of costs to include both Capex and Opex, using the lifecycle cost checklist. This should explicitly reflect Opex and Capex savings due to the SDF indicators. Also, develop multiple cost models reflecting a baseline, Good Practice and Leading Practice for the purposes of comparison, and maintain these over the course of the development

Quantity surveyor

Qualify cost against the indicators in the SDF. Provide options appraisals of Good Practice versus Leading Practice based on lifecycle cost assessments, including cost uplift and savings of both Capex and Opex, to support the models maintained by the financial analyst

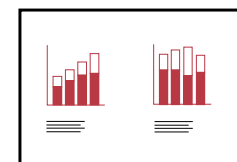
RIBA Stage 3: Revise

Valuer

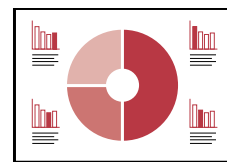
Assess the sustainability premium possible for rents and sales values, based on SDF features and take into account indicator FS04 Green Leases. Provide these to the financial analyst for inclusion in the development appraisal

Quantity surveyor

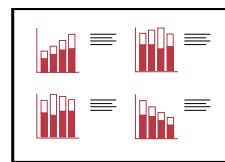
Assess the cost increases and/or decreases associated with the proposed sustainability measures in RIBA Stage 3 designs, and provide these updated figures to the financial analyst



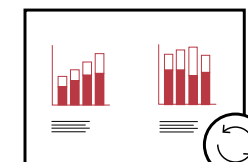
Development appraisal



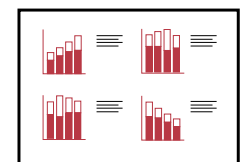
Lifecycle appraisal, Lifecycle cost checklist,



Cost models



Development appraisal



Cost models

Action

Documentation

Documentation

What is the process? (continued)

RIBA Stage 3: Revise (continued)

Financial analyst

Capture the potential savings from indicator FS03 Green Finance, update the income to reflect the green premium (if applicable) identified by the valuers, and update the cost benchmarks associated with sustainable features. Also, update the models to reflect baseline, Good Practice and Leading Practice lifecycle costs, making sure requirements for green finance and green premiums are explicitly linked and included in the cost models

RIBA Stage 4: Revise

Valuer

Update the projections for green premiums on sales or rental revenues (if any) and provide these to the financial analyst

Quantity surveyor

Update the cost schedule with any cost increases or decreases associated with sustainability measures, and provide these to the financial analyst

Financial analyst

Update the baseline, Good Practice and Leading Practice models in line with the design evolution, to reflect the changes to Capex and Opex costs, green finance and green premiums as the project develops

RIBA Stage 5: Revise

Financial analyst

Update the baseline, Good Practice and Leading Practice models in line with the design evolution, to reflect the changes to Capex and Opex costs, green finance and green premiums as the project develops

RIBA Stage 6: Conclude

Financial analyst

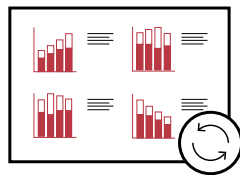
Finalise the cost models with the baseline to the as-built comparison of cost savings over the development lifecycle

Action

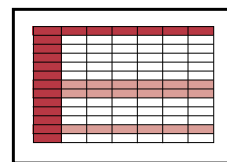
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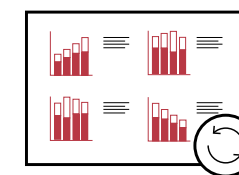
Documentation



Cost models

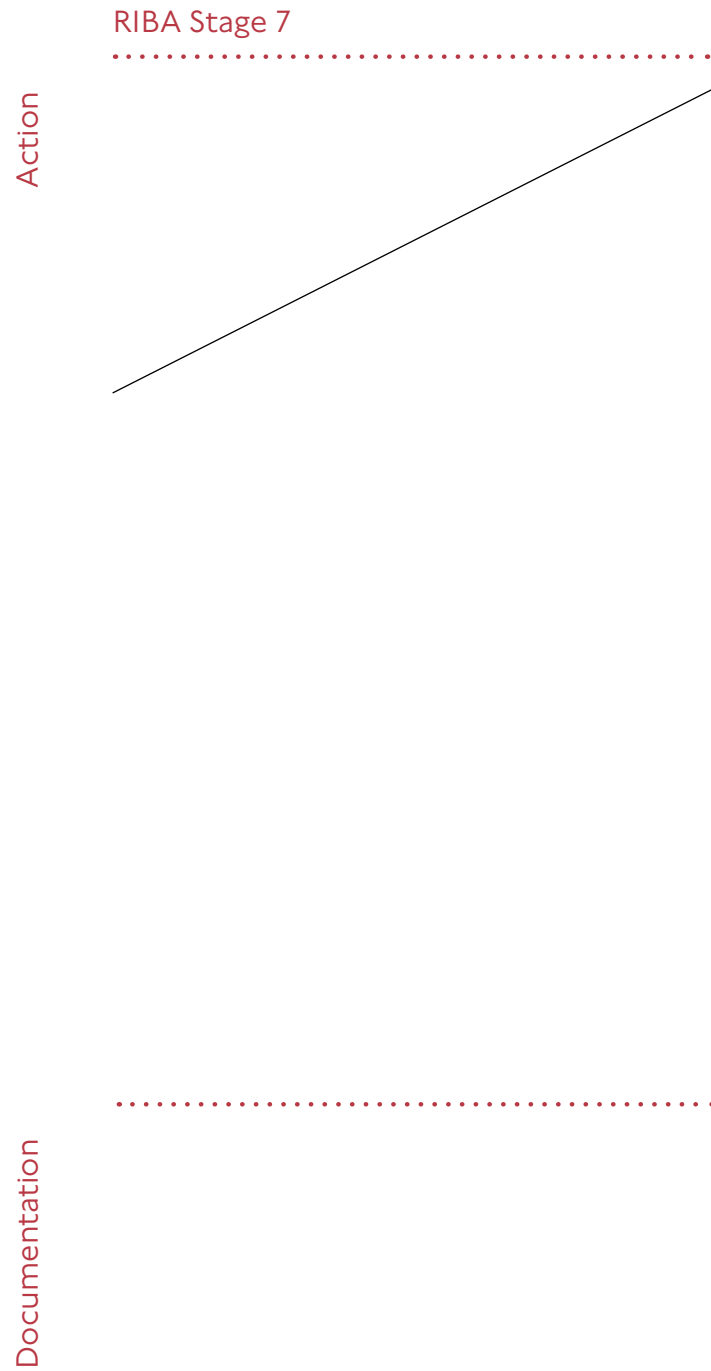


Cost schedule



Cost models

What is the process? (c'd)



Further reading

- Building the Case for Net Zero, UK Green Building Council (UKGBC)
- Sustainability and ESG in commercial property valuation and strategic advice, Royal Institution of Chartered Surveyors (RICS), 3rd edition
- How BREEAM certifications impact prime Central London office rents, Knight Frank
- Net Zero and Valuations, IPSX/Carbon Intelligence

ID no

Key Performance Indicator (KPI) name

FS3 Green Finance

What is it?

At its simplest, green finance is any structured financial facility created to ensure a better environmental outcome. When raising capital to fund developments, the sustainability features of the projects make green finance incentives and discounts possible. This indicator focuses on how green finance can be used to reduce the cost of capital or improve the terms while incentivising better sustainability outcomes. It aims to encourage development managers to use the Sustainable Development Framework (SDF) indicators to maximise green finance options and reduce project costs.

The SDF provides a range of features with indicators that can be incorporated into green finance requirements and structured into a development’s finance package. Based on these, development managers should seek to achieve lower rates of interest on debt, preferential terms or loan flexibility, and other incentives structured into a project’s finance. In this way, the viability of sustainable features can be improved.

How does it add value?

The cost of capital is an important part of the business case when planning new developments. By promoting green features to debt and equity teams, development managers can highlight how the SDF builds resilience against:

- Environmentally-based legislation and risk of asset stranding (the process by which an asset suffers from unanticipated or premature write-downs or devaluation)
- Shifts in consumer and occupier requirements as society increases focus on addressing the climate crisis
- Investor disclosure requirements as environmental, social and corporate governance (ESG) disclosures become increasingly sophisticated and challenging to meet
- Physical climate risks, for example, asset overheating
- Operational costs and reduced exposure to energy price fluctuations
- Reduced risks to the exit yield for debt finance
- In addition, green buildings attract occupiers with a lower risk of default

The management of these risks are attractive to lenders and should result in adjustments to the finance terms (such as reduced interest rates or preferable payback terms), reducing the overall cost of the project.

What type of project does the indicator apply to?

- Residential
- Commercial
- Masterplan
- Industrial

Who is responsible?

Development Manager ●●○ accountable

 Financial Analyst ●○○ supporting

RIBA Stages



Connected UN Sustainable Development Goals

- 8 Decent Work and Economic Growth
- 9 Industry, Innovation and Infrastructure
- 11 Sustainable Cities and Communities



Connected SDF indicators

- Geared Internal Rate of Return
- Return on Equity

How is it calculated?

This indicator summarises the coverage of the project financing (debt or external equity) which is based on green terms, and is calculated as the total value of green finance facilities divided by the total value of all financial facilities. To qualify as ‘green finance’, the debt must be linked to specific sustainability outcomes (for example, achieving Home Quality Mark (HQM) certification).

As the development is financed, any sustainability-linked incentives will be disclosed as a percentage of the overall capital raised. Reducing the cost of that capital through sustainability-linked loans can improve a development’s viability and return on investment.

The terms of the finance should be reflected in FS01 Geared Internal Rate of Return and FS02 Return on Equity indicators, with clear links to the requirements of the green finance as a benefit of that specific indicator.

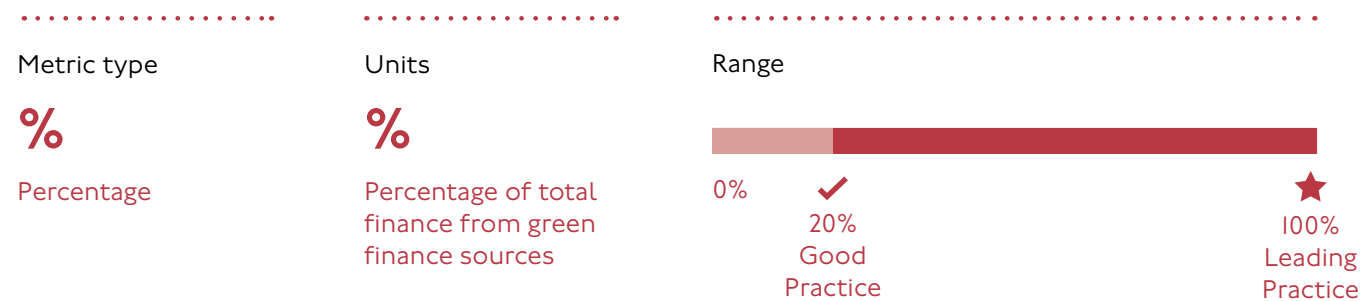
Alignment with regulated sustainable finance disclosure requirements is likely to attract better terms. These include:

- Recommendations of the Taskforce for Climate Related Financial Disclosure (TCFD)
- European Union’s Sustainable Finance Disclosure Regulations (SFDR)
- European Union’s Taxonomy for Sustainable Activities (EUT)

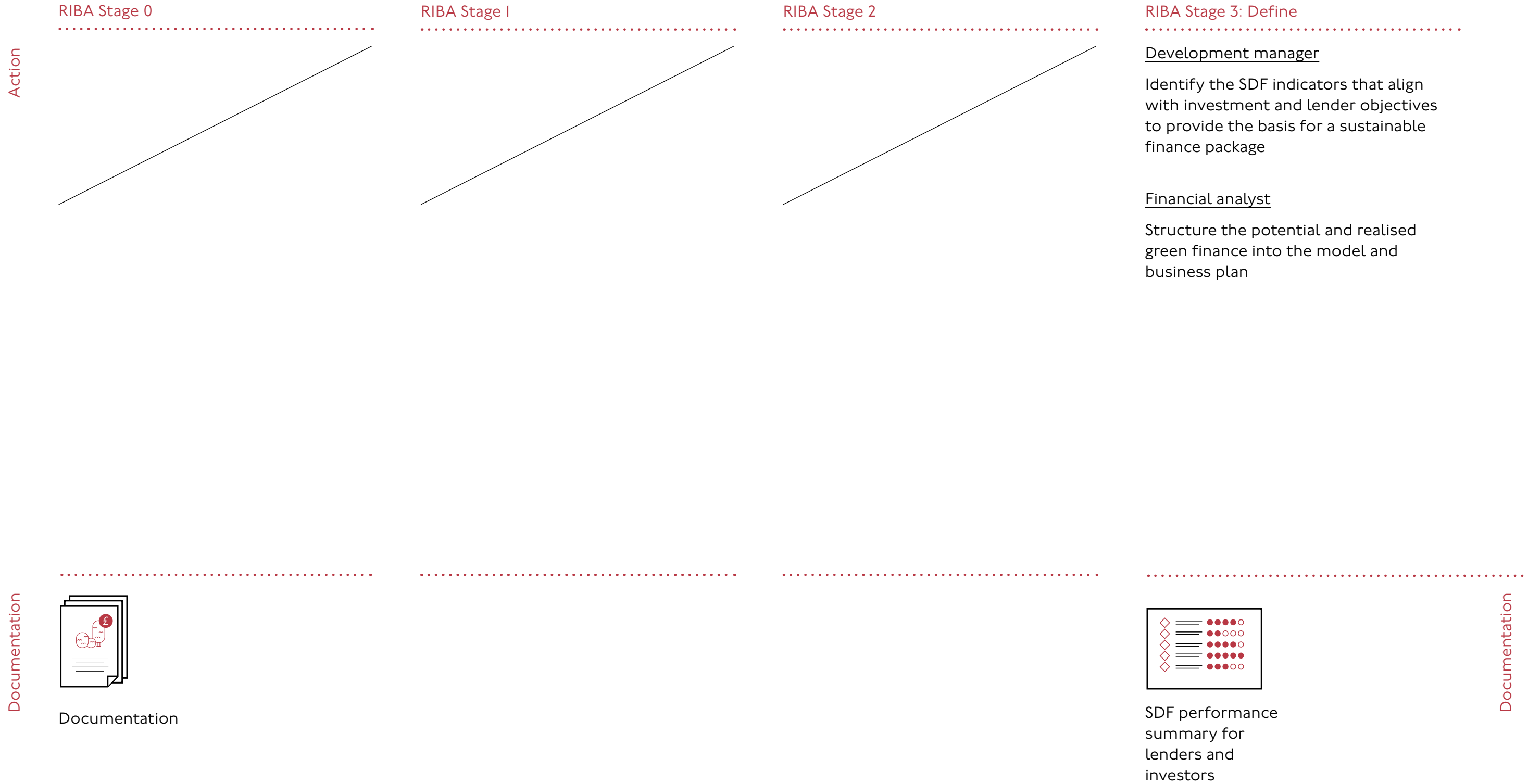
SDF indicators are also likely to align with the upcoming UK sustainable finance disclosure requirements:

- UK Sustainable Disclosure Regulations (SDR)
- UK Taxonomy (UKT)

Connected indicators support sustainable disclosure requirements and are likely candidates for improving terms for green finance. These should be promoted by the development manager when seeking finance and improved terms from the lender. The lender will require confirmation that these indicators have achieved the targets agreed within the financing terms, which may require additional reporting.



What is the process?



What is the process? (continued)

RIBA Stage 4: Finance

Development manager

Work with the debt and equity teams to obtain preferential terms on interest rates, equity terms or other incentives directly linked to the SDF indicators

RIBA Stage 5: Finance

Development manager

If securing additional finance or refinancing, work with the debt and equity teams to obtain preferential terms on interest rates, equity terms or other incentives directly linked to the SDF indicators

RIBA Stage 6: Report

Development manager

If refinancing, work with the debt and equity teams to obtain preferential terms on interest rates, equity terms or other incentives directly linked to the SDF indicators

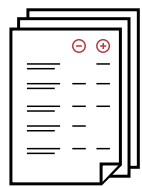
RIBA Stage 7

Action

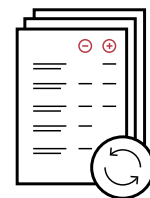
Action

Documentation

Documentation



Debt/equity term sheet with green finance clauses



[If applicable] Debt/equity term sheet with green finance clauses



[If applicable] Debt/equity term sheet with green finance clauses

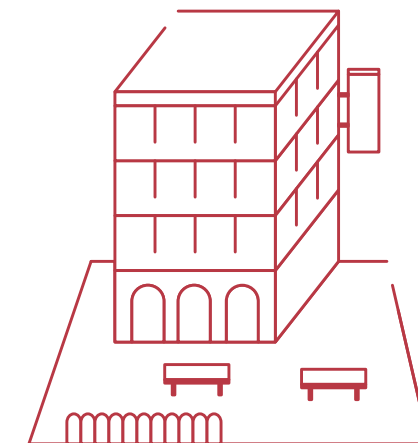
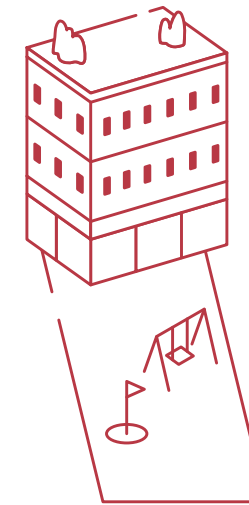
Further reading

Real estate managers must prepare for SFDR, IPE

Summary and webinar on SFDR & EU Taxonomy, Association of Real Estate Funds (AREF)

Enhancing climate-related disclosures in Real Estate (AREF, INREV and IPF), Task Force on Climate-Related Financial Disclosures (TCFD) Hub

EU Green Taxonomy: Final Report, EU Technical Expert Group (TEG)



ID no Key Performance Indicator (KPI) name

FS 4 Green Leases

What is it?

Rental agreements where tenants commit to – or gain incentives by – participating in energy and water conservation, waste reduction, recycling, and other sustainable behaviours are known as green leases. At the same time, green leases may also contain clauses which allow the landlord to share in the financial benefits of improved energy efficiency created through their investments.

These will provide the basis for sustainable operations management and collaboration with commercial tenants to create a more environmentally friendly building. This indicator focuses on the percentage of a development’s rent roll – its register of rents including the names of tenants and the amounts due – that contain green clauses within the lease.

In the UK, the Better Buildings Partnership (BBP) has developed a Green Lease Toolkit (BBP Toolkit) that provides practical guidance on clauses and implementation and is the basis for this indicator.

How does it add value?

In a typical lease, the tenant is responsible for paying the utility bills. This means that if the landlord invests in energy or water efficiency, any financial benefits accrue to the tenant; without any benefit, landlords tend not to invest in making their properties more sustainable.

At the same time, the tenant generally sees no benefit in minimising waste, recycling, safely disposing of toxic chemicals, or operating a sustainable business in general – often leading to unsustainable activities, such as throwing away recyclables and improperly disposing of hazardous chemicals.

Green leases flip this dynamic on its head. They embed specific measures which incentivise tenants to adopt sustainable business practices, and other measures that incentivise landlords to invest in making their properties sustainable and efficient. If leveraged correctly, this can lead to a more sustainable property, a more sustainable tenant operation, and financial benefits for both the landlord and tenant.

What type of project does the indicator apply to?

- Residential
- Commercial
- Masterplan
- Industrial

Who is responsible?

Development Manager	● ● ○	accountable
Leasing Agent	● ○ ○	supporting
Property Manager	● ○ ○	supporting
Valuer	● ○ ○	supporting
Financial Analyst	● ○ ○	supporting

RIBA Stages



Connected UN Sustainable Development Goals

- 8 Decent Work and Economic Growth
- 9 Industry, Innovation and Infrastructure
- 11 Sustainable Cities and Communities



Connected SDF indicators

- Geared Internal Rate of Return
- Return on Equity
- Sustainable Operations Management

How is it calculated?

The BBP Toolkit provides a range of guidance on the implementation of green leases, and also includes a section on ‘Model form green lease clauses’ (page I4) offering suggested drafting for clauses under major impacts. This indicator represents the degree to which these clauses are implemented across a portfolio of leases. The calculation is based on the percentage of relevant clauses actually incorporated into each lease, and takes an average across all leases weighted by rent value.

Development managers may exclude specific clauses if they are not relevant, so long as they maintain a rationale for exclusion. However, clauses related to data sharing should be considered a

prerequisite for achieving Good Practice (refer to Data Sharing and Metering in the 2013 version of the BBP Toolkit). If these clauses are not included the lease will automatically be assigned a score of zero.

Clauses may be reworded if necessary but should seek to achieve the ends each clause sets out to accomplish. The BBP Toolkit will be updated and the most recent version should be used as a basis for clauses.

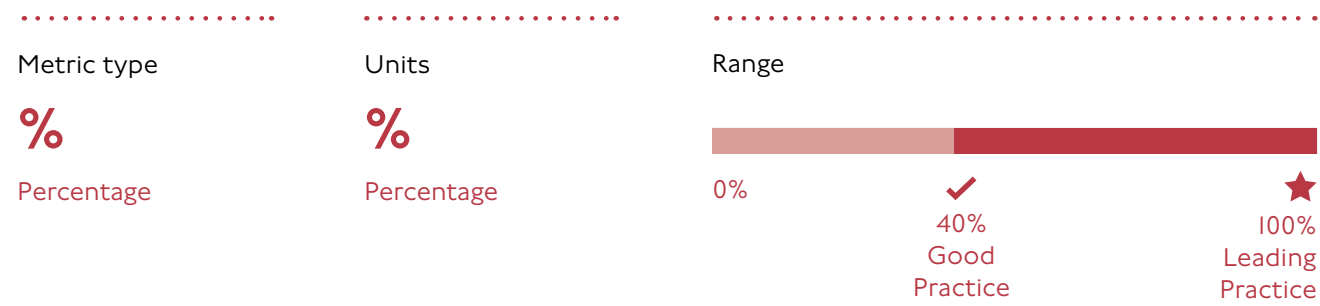
The table below provides an example.

In this case, the asset achieves Good Practice in having good coverage across the most material demise, but the smallest unit is missing the data sharing aspect which means the lease receives a score of zero.

Other indicators in the SDF are dependent on the collaboration that green leases help to encourage – in particular, the Sustainable Operations Management activities of HPB29. So while this indicator may focus on the coverage of green lease clauses included within leases, development managers are highly recommended to consider how these clauses are implemented. For example, they should make sure there are measures to collect the data required by the Data Sharing and Metering clause so that this information can be used to improve the management of the asset.

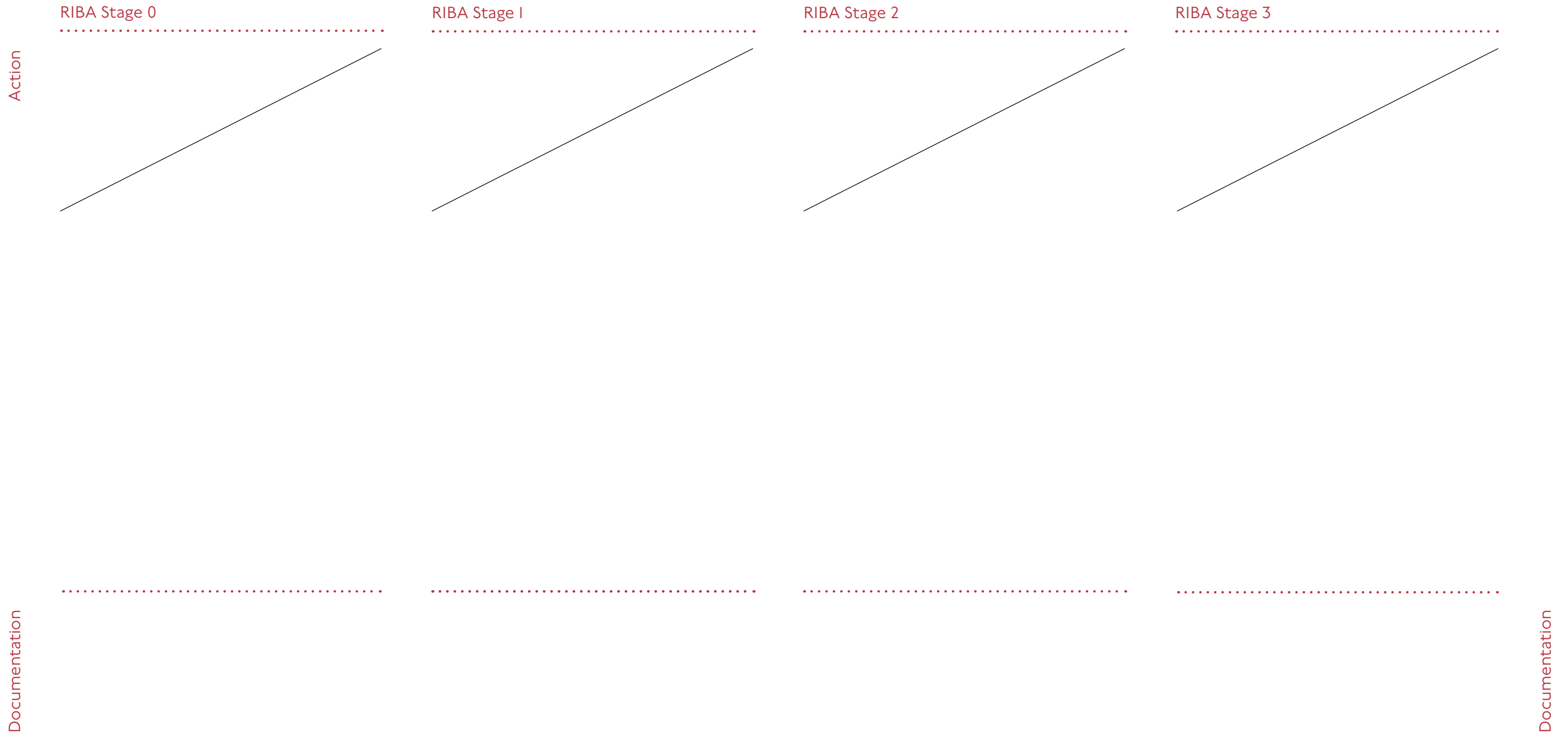
A note on data sharing clauses in green leases

Where the landlord has the responsibility for energy tariffs and recharges to the occupier, the data sharing requirement is reversed and the landlord should provide this data to the occupier in energy units as well as recharged costs. Occupiers must report on their environmental impacts as well as landlords and this should be simplified and promoted within the lease.



Demise	Percent of rent roll	Percentage of relevant green clauses included in lease	Green lease clause coverage
A	50%	100%	50%
B	20%	50% (but no data sharing)	0%
C	30%	50%	15%
Total for asset			65%

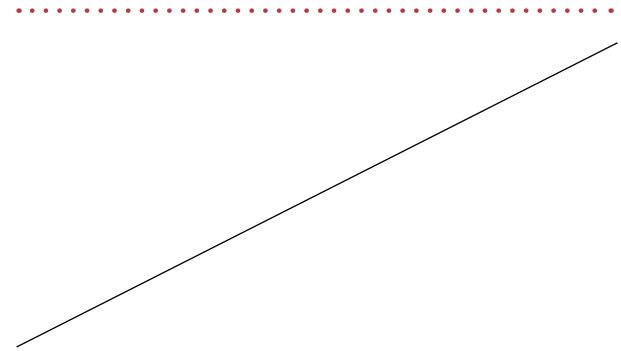
What is the process?



What is the process? (continued)

Action

RIBA Stage 4



RIBA Stage 5: Establish

Development manager

Identify the relevant green lease clauses from the BBP Toolkit and instruct the leasing agent to include these within the standard form lease for the development. Also, define how clauses will interact with the operations of other SDF indicators, clearly recognising future risks of underperformance if clauses are not agreed and put into operation

Valuer

Estimate the green premiums from the green lease strategy and how they will affect rental income

Financial analyst

Translate the green premiums established by the valuers into the indicators FS01 Geared Internal Rate of Return and FS02 Return on Equity financial models



Draft lease agreement

RIBA Stage 6: Sign

Development manager

Coordinate the leading agents to achieve the green lease requirements set out in RIBA Stage 5

Leasing agent

Insert the relevant BBP Toolkit clauses into the standard lease agreement, based on the recommendation from the development manager from RIBA Stage 4. In addition, within the head leases, include the requirement to report on the progress and coverage of the FS04 Green Leases indicator within the terms of the operating lease



Lease agreement

RIBA Stage 7: Collaborate

Development manager

Translate the green lease requirements into the sustainable operations management for the development

Property manager

Comply with the green lease requirements as agreed within the lease clauses and within the sustainable operations management. Make sure data is shared with tenants, and recover tenant controlled data or provide data, as required, to tenants. Also, in the head leases, confirm the coverage of the FS04 Green Leases requirement by the operating landlord

Documentation

Documentation

Further reading

Green Lease Toolkit, Building Better Partnerships (BBP)



ID no

Key Performance Indicator (KPI) name

FS 5 Net Hypothecated Value

What is it?

Development projects frequently provide or include the delivery of non-revenue-producing capital assets for TfL. These include assets such as step-free access (SFA), platform upgrades, train crew accommodations, new bus facilities, cycle lanes, and other transport infrastructure along with operational savings, for example, service improvements or business efficiency savings. It is sometimes far more cost-effective or technically feasible to deliver these infrastructures as part of adjacent property development projects than it is to deliver the assets on their own as separate projects. This indicator seeks to measure the net financial gain generated by delivering these assets as part of the development.

How does it add value?

When TfL transport infrastructure upgrades are delivered, for example, as part of an integrated property-development-led project, they can often be made cheaper or more technically feasible.

However, property developments generally do not capture the actual 'value' of these assets, and generally treat them as pure cost items in financial models. As a result, the delivery of these assets can be viewed as a financial 'drag', even where they actually generate a net financial benefit to TfL in the round.

By measuring net hypothecated value, project teams can clearly see – and demonstrate to stakeholders – how they are creating more value for TfL than these assets are costing them.

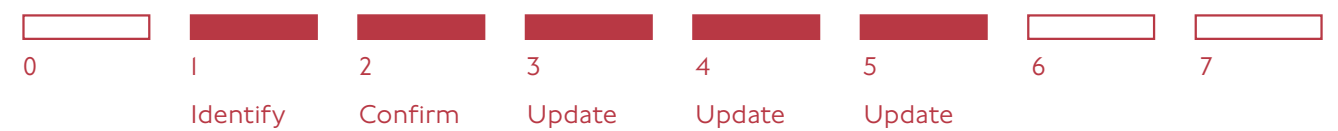
What type of project does the indicator apply to?

- Residential
- Commercial
- Masterplan
- Industrial

Who is responsible?

- Development Manager ●●○ accountable
- Financial Analyst ●○○ supporting
- Quantity Surveyor ●○○ supporting

RIBA Stages



Connected UN Sustainable Development Goals

- 8 Decent Work and Economic Growth
- 9 Industry, Innovation and Infrastructure
- 11 Sustainable Cities and Communities



Connected SDF indicators

- Geared Internal Rate of Return
- Return on Equity
- Investment in TfL Transport Infrastructure
- Active Travel Transport Infrastructure
- Access and Inclusion

How is it calculated?

To calculate hypothecated value, the project team must follow these four steps:

- 1 Determine what, if any, operational assets or improvements are required within or adjacent to the property development project.
- 2 Determine the cost of delivering those assets as distinct, independent projects without any help or support from the property development.
- 3 Add up these costs for any assets that are delivered as part of, or facilitated by, the property development.
- 4 Subtract the actual cost of delivering these assets, including opportunity costs.

The following is a worked example:

- 1 At a given station, step-free access and a new cycle lane are required.
- 2 If these are delivered as independent and separate projects, SFA would cost £4m and the cycle lane would cost £280k.
- 3 As part of the property development, SFA is delivered and the new cycle lane is not. On this basis, the value delivered by the project is £4m.
- 4 By delivering SFA within the development’s planned structure, there is no need to create a new one, eliminating the structural construction costs. The SFA’s direct construction cost reduces to £1m, and also takes up 40 square metres of commercial floor area, worth £500k. On this basis, the net hypothecated value is:

$$£4m - (£1m + £500k) = £2.5m$$

Please note, that works required to mitigate the impact of a development, for example, via S106 Agreement should be discounted from any calculation as they will be encapsulated in indicators NI01 and NI02.

Metric type	Units	Range
£	£	Reporting
Financial	Net hypothecated value in pounds	

What is the process?

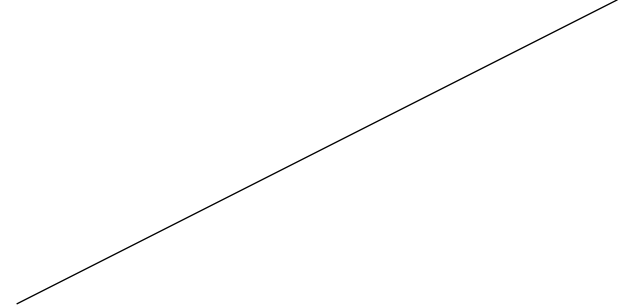
RIBA Stage 0

RIBA Stage 1: Identify

RIBA Stage 2: Confirm

RIBA Stage 3: Update

Action



Development manager

Liaise with TfL operational teams to establish what, if any, transport assets or upgrades are required for the area

Prepare a summary of requirements for each of the required assets/improvements, and establish whether any of these can be delivered or facilitated as part of the development project

Quantity surveyor

Calculate the cost of delivering the asset(s)/improvement(s) in isolation as a separate project, versus the cost of delivering it within (or facilitated by) the development project

Calculate the cost of delivering the asset(s)/ improvement(s) within, or facilitated by, the development project

Financial analyst

Calculate any opportunity cost (that is, foregone revenue or revenue-producing asset value) of delivering the asset(s)/ improvement(s)

Development manager

Working with the financial and operational teams, establish whether the asset(s)/ improvement(s) should be delivered as part of the development project

Quantity surveyor

Update the cost projections for the asset(s)/improvement(s) delivered as part of, or facilitated by, the development project

Financial analyst

Update and report on the net hypothecated value based on the revised delivery costs

Documentation



Documentation



Cost report

Documentation

What is the process? (continued)

RIBA Stage 4: Update

Quantity surveyor

Update the cost projections for the asset(s)/improvement(s) delivered as part of, or facilitated by, the development project

Financial analyst

Update and report on the net hypothecated value based on the revised delivery costs

RIBA Stage 5: Update

Quantity surveyor

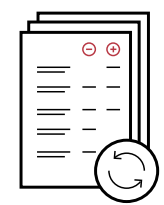
Update the cost projections for the asset(s)/improvement(s) delivered as part of, or facilitated by, the development project

Financial analyst

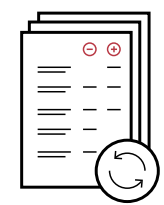
Update and report on the net hypothecated value based on the revised delivery costs

RIBA Stage 6

RIBA Stage 7



Cost report



Cost report

Action

Action

Documentation

Documentation

Contributors

- FS1 Geared Internal Rate of Return (IRR): CBRE
- FS2 Return on Equity (RoE): CBRE
- FS3 Green Finance: CBRE
- FS4 Green Leases: CBRE
- FS5 Net Hypothecated Value: CBRE

