

# PERE

## ESG

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Real estate's race to net zero is picking up pace

# KEYNOTE INTERVIEW

## Logistics' road to net zero



*The journey toward decarbonization has begun, but obstacles remain for the sector to overcome, suggest **Artur Mokrzycki** and **Emilia Dębowska** of industrial developer Panattoni*

Developers of logistics space have been experimenting with environmentally friendly solutions for more than a decade. But in the past three years, sustainability has become a central element in the strategies of all the major platforms. Panattoni is the most active industrial developer in Europe, delivering big box logistics, light industrial and manufacturing space across 12 countries. The firm's Artur Mokrzycki, head of capital markets Europe, and sustainability manager Emilia Dębowska, explain to *PERE* how the impetus toward energy efficiency and decarbonization is shaping developers' activities in the region.

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**Q What are the principal drivers of the sustainability agenda for European logistics developers?**

**Artur Mokrzycki:** The final decision-makers driving demand for more sustainable buildings are not the investors, developers or occupiers. It's consumers who decide what to buy. As consumers, we're increasingly making comparisons between the goods we buy, in terms of where and how sustainably they were produced, and how

far they've traveled. These factors are now more visible and transparent to all of us. As a consequence, the whole supply chain, both manufacturing and distribution, will be adjusted.

So, there's no longer any need to convince investors of the importance of sustainability. Capital providers monitor developers' environmental targets and strategies, often then digging into specific technical solutions and how they will be implemented, and demanding an audit of completed projects, so they can confirm that what was planned was also implemented.

**Emilia Dębowska:** In the wake of

covid-19, ESG has become a much greater focus across the whole real estate sector. Where logistics developers can have the greatest positive impact is in the environmental sphere, and there are many levers with which to do that: reducing energy consumption and greenhouse gas emissions; renewable energy; managing construction waste and how it's disposed of; biodiversity improvements and water management.

Panattoni is the largest developer of logistics space in Europe, so that places a responsibility on us to keep up with the drive for sustainable solutions happening around the world, delivering green buildings and meeting the goals that have been set globally, as well as the ones we set for ourselves.

**Q How is EU regulation shaping developers' approach?**

**AM:** Regulation is very important. It helps actors across the industry to work in the same direction and at the same speed to meet common goals. Across much of Europe, there's very clear regulation, which is helping us to reshape the market. For example, in some European countries very little greenfield development is allowed, so the market must prioritize already developed brownfield sites for regeneration. Previously developed sites make up an increasingly significant part of our development pipeline in many European locations.

**ED:** The most important set of guidelines is the European Green Deal. It sets out the aim for the EU to become climate neutral by 2050, and its 'fit for 55' policy mandates reducing carbon emissions by 55 percent even earlier, by 2030. The EU Taxonomy Regulations govern sustainable finance and are part of the efforts to reach the objectives set out by the Green Deal.

The detail of how those regulations will affect the property sector is yet to be finalized. However, they will certainly mean that we have to figure

Brownfield hat trick

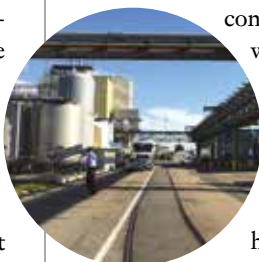
**Three sites demonstrate the trend toward revitalizing derelict and contaminated industrial land in Europe to provide new logistics space.**

Brownfield developments now comprise more than 10 percent of Panattoni's European projects, a proportion that is expected to increase. "In many cases there's political support for revitalization of brownfield sites," says Mokrzycki. "Also, previously developed sites are typically in very good locations close to large urban areas, so most of the time they're very attractive opportunities, albeit complex to redevelop. Instead of outsourcing, we have our own internal team dealing with environmental technical assessment and implementation. With that expertise, it's possible to redevelop very complex brownfield sites where contamination, pollution and asbestos are factors."

**Nowa Huta, Kraków, Poland.** Before work began on the former concrete production plant, its historical industrial usage had to be researched, with water and soil samples taken to determine the extent of the pollution. The developer's 'Go Earthwise with Panattoni' sustainable development policy mandates the recycling of up to 90 percent of waste, so all of the plant's reinforced concrete was recycled; steel was sent to foundries as scrap metal and concrete crushed to produce aggregate for use in the new development. City Logistics Kraków will have 393,000 square feet of distribution space. A first 97,000 square foot building was ready for occupation by logistics operator Inpost in September.



**Mannheim Ost, Ladenburg, Germany.** In August, bulk logistics operator neska moved into its new facility in Ladenburg. The 581,000-square-foot development will have safe storage for hazardous chemicals, consolidating operations from six other sites. The buildings were constructed to the German Sustainable Building Council's DGNB Gold standard. Three-quarters of roof surfaces have PV solar panels. A direct pipeline to the Neckar River allows surface water to drain, and a liner beneath the halls prevents polluted water from entering the groundwater. Meanwhile, a 32,000-square-foot habitat provides a new home for a local lizard species.



**Slough, UK.** The site of Panattoni Park Slough was previously used by ICI Paints, which left a challenging legacy. It was heavily contaminated with solvents, hydrocarbons and waste paint, with the worst-affected area bordering the Grand Union Canal on the north of the site. Planning consent was granted in September 2020 for 1,000 new homes and 770,000 square feet of commercial space. An extensive remediation program is underway, after which the industrial space will be built on the land that suffered most from historic contamination, while the site's southern zone will provide new homes.



out how to achieve a net-zero carbon business model. What Europe lacks, though, is a single standard for the measurement of emissions, or a single net-zero building certification regime. Each EU country has its own approach, which can cause confusion.

### **Q** What role do certification schemes play in defining KPIs for the sector?

**AM:** There's unquestionably a desire across the industry to make progress in this area. The difficulty is to measure ESG progress and show evidence of it. Existing national and international rating systems are useful. Where they are the norm, they become easier for us to implement, and their familiarity means investors recognize them.

**ED:** Certification is very important because it helps to co-ordinate sustainability initiatives across different aspects of the construction process. Generally speaking, Panattoni uses BREEAM certification, although in Germany we use the local German Sustainable Building Council DGMB benchmark. For three years, we've been developing buildings with green certification as standard. Overall, we've developed more than 60 million square feet of buildings with certification, with a further 35 million square feet under construction.

At the beginning, we were aiming for BREEAM 'good' ratings, then 'very good' during the pandemic, and we're now aiming for 'excellent' as standard. Our Czech team developed a BREEAM 'outstanding' project, the only logistics building in Europe to achieve such a high score. That was a brownfield project, which helps to earn more points and therefore a higher rating. It scored very highly for rainwater solutions and the surroundings had many biodiversity-related improvements including high grass, insect hotels and beehives.

### **Q** What challenges does the industry face in delivering on net-zero goals?

**AM:** There's a consensus among investors and developers that there is no alternative. We must address these questions. We must be proactive. But what would help is a little bit of support from political decision-makers to give us guidelines, timelines and objectives that are quantified, so that we can prepare, and to ensure that we're all pushing in the same direction at the same speed.

Some European countries are more advanced in that area, which is helpful. But the EU is also a fantastic tool because it helps good ideas to spread around Europe very quickly in a way that is harmonized across borders.

**ED:** Panattoni has set an ambitious goal of achieving emissions neutrality by 2025. That target is focused on carbon generated by operational energy usage. We can make major progress toward becoming net zero in operations for logistics buildings through renewable energy initiatives such as the installation of photovoltaic solar panels on roofs, and exchanging gas heating systems for heat pumps.

*“Reducing embodied carbon within building materials is more challenging, so the path toward net-zero construction is less clear”*

**EMILIA DĘBOWSKA**

Like other European real estate businesses, when that target is met, we'll turn to the aim of becoming carbon neutral in construction. Reducing embodied carbon within building materials is more challenging, so the path toward net-zero construction is less clear.

Few suppliers produce construction materials with certificates that tell developers about their carbon footprint, so embodied carbon is hard to measure. That's likely to change in future, when more companies are expected to start producing green building materials. Some are already changing their production methods. Steel and concrete companies have been demonstrating to us new ways of producing materials.

But right now, it's very expensive to build that way, with few suppliers to choose from. However, there are some effective steps developers can already take to reduce emissions on construction sites, for instance, by measuring and addressing the CO<sub>2</sub> produced by the transport of building materials. That's helped us to reduce construction emissions by 20 percent.

### **Q** Is offsetting required to achieve net zero?

**AM:** We don't use offsetting, and we don't plan to right now. But when you consider the information from the World Green Building Council and UN reports on sustainable development, based on the knowledge we have, developers cannot sufficiently reduce the embodied carbon in our buildings to get to net-zero carbon both for construction and operations without the use of offsetting.

At present, we're focusing on reducing operational emissions, introducing technology to generate enough energy on site to remove the need to consume electricity from the national grid.

That may still leave some small requirement for offsetting. But where that's necessary, it is important to try to offset within the country, and the area, in which the development is located. ■



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