The EU’s Corporate Sustainability Reporting Directive (CSRD), introduced to enhance transparency on sustainability efforts, is set to leave a lasting impact on the real estate sector. This article delves into key implications, highlighting challenges and opportunities for organisations operating within this dynamic field.

The impact of CSRD on real estate

The real estate industry holds the power to both negatively and positively impact the environment and communities with which it interacts. From the generation of greenhouse gas emissions by buildings, to the resource consumption during construction—numerous sustainability aspects need to be addressed[1].

Organisations will need to scope which entities and structures meet the threshold requirements in line with CSRD. These entities are obliged to include sustainability information in their management report.

Undertakings should consider that the reporting deadline is swiftly approaching, with different timelines based on company size, turnover, and balance sheet. Large EU public interest entities are required to start reporting in 2025 for the 2024 financial year, followed by large EU undertakings in 2026 for the 2025 financial year, EU Small and Medium Enterprises (SMEs) in 2027 for the financial year 2026, and non-EU parent companies in 2029 for the 2028 financial year.

These companies must assess their status regarding significant ESG issues, establish ambitious and traceable goals, map their value chain, engage with both internal and external stakeholders and gather all necessary data for reporting. Moreover, the information will require mandatory assurance to ensure accuracy and information reliability[2]. It is crucial for companies to begin the preparation in order to ensure a smooth and successful reporting process.

Key challenges and opportunities for CSRD implementation in the real estate field

The implementation of the CSRD in the real estate sector poses significant challenges that must be addressed to ensure compliant reporting. It is important to note that even parties not directly in scope, may still be indirectly affected, to provide sustainability related information to affect entities they interact with, such as subsidiaries, suppliers, or customers.

A significant addition brought by the Directive is the introduction of the Double Materiality Assessment (DMA). Organisations will need to evaluate and disclose not only the impact on environment and society of their operations, but also the financial impact of social and environmental issues on their company balance sheet. This requires a robust consideration of
risks, impacts and opportunities. For the real estate sector, topics can relate to pollution, climate change mitigation characteristics of buildings, biodiversity and ecosystem consideration during the construction phase, information on health and safety of workers in the construction sites, tenant wellbeing.

Real estate companies need to identify and map significant business relationships across their value chain for CSRD compliance. Challenges include the complexity of operations and determining the organisation’s extent, both upstream and downstream. Overcoming these, requires investment in resources, stakeholder engagement, and integration of sustainability principles into core business phases like leasing or sale operations, and the management of properties.

Additionally, monitoring and collecting data for reporting on ESG indicators such as energy consumption and social impact demands robust data management systems. The data must also meet adequacy standards to undergo assurance processes. For this reason, it is crucial to develop solid processes and controls that ensure accuracy and reliability of the information used.

Another important aspect of the CSRD is the development of a transition plan for climate change mitigation, including the goal of limiting global warming to 1.5°C3 and the consideration of biodiversity, ecosystems and principal adverse impacts in their strategy and business model. In particular, the real estate sector is currently responsible for 40% of the global CO2 emissions4. With increasing pressure from stakeholders and the public, developing a pragmatic transition plan is imperative in this sector.

CSRD mandates the inclusion of calculations to determine the extent to which the organisation contributes to sustainable activities that have been defined under a common directory, the EU Taxonomy. There is high potential to showcase efforts under this in the real estate sector, thus ultimately enhancing visibility for investments.

The CSRD compliance journey is not only characterized by impacts and risks, but also by opportunities for real estate companies. For instance, it provides a valuable opportunity for firms to leverage reliable and standardized data, establishing a common understanding, and supporting well-informed decisions. Firms that embrace the evolutions can actively pivot toward a green transformation, identifying key sustainability topics for stakeholders, setting clear objectives, and measure progress. Furthermore, compliance with these standards can foster transparency and efficiency for the organisation and direct investments toward efforts. Aligning with the Directive principle helps companies minimizing risk, build trust among stakeholders and gaining a competitive hedge in the market.

Conclusion

In conclusion, while the CSRD brings complexities, it also yields opportunities to enhance current practices. Conducting a thorough materiality assessment, clearly defining a value chain, and establishing a realistic transition plan are essential to a successful adoption in this sector.

Real estate companies can ensure long-term value creation and enhance their competitiveness through integrating ESG considerations into decisions, thus contributing to a more sustainable and resilient future.

Endnotes


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