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ESG real estate insights

Global perspectives on sustainability and climate

How can ESG be profitable for real estate?

Despite increasing evidence on the benefits of environmental, social, and governance (ESG) initiatives, real estate companies continue to take a passive approach. A recent Deloitte Canada survey[1] reveals that commercial real estate owners are lagging in giving strategic importance to ESG efforts, even as tenants demand more ESG insights and services—and are willing to pay for them. And it could be that commercial real estate owners and developers are missing an opportunity to generate new revenue via ESG initiatives and directly improve profitability.

Making the case for ESG

The real estate industry continues to receive increased empirical evidence about the benefits of smarter and greener buildings and investing in ESG initiatives. For instance, smart-green buildings can help to reduce up to 30% of water usage, 40% of energy usage, and 10% to 30% of overall building maintenance costs.[2] Studies also show that smart-green buildings can provide 11.8% higher lease value with 5% to 35% higher sales value.[3]

According to a Deloitte Canada study, ESG performance is starting to have a measurable impact. The analysis of 250 real estate companies globally, found that in 2020 and 2021, a higher percentage of real estate companies exhibited an increase in returns and valuation when their ESG performance rose compared to when it fell. In other words, an improvement in ESG performance is starting to show a positive correlation to returns and valuation.[4]

However, real estate companies appear to be focused on doing just enough in terms of resource efficiency and regular reporting to avoid loss of value, ensure compliance, and position themselves favorably in the market—instead of an active approach that considers ESG as an opportunity and value generator. For instance, the Deloitte Canada survey[5] shows that over half of commercial real estate owners face challenges in organization-wide acceptance of having ESG drive enterprise value in the long term. Further, only 38% and 34% of owner respondents have or plan to have an ESG-dedicated board member and a chief sustainability officer position, respectively.[6] And only 26% have a decarbonization strategy and emission reduction goals for 2030.[7]

Accessing untapped value

The Deloitte study found that commercial real estate tenants are looking to prioritize the capture of environmental sustainability data as they reduce their carbon footprint and advance toward net-zero. And more than half of tenant respondents want to capture data on their energy and water consumption, waste management, and carbon emissions of the buildings they occupy.[8] Further, a majority of tenant respondents are willing to share their ESG data with landlords and expect ESG transparency from landlords as well.

This pursuit of data offers an opportunity for owners to provide diverse services, enabled by technology, that can help tenants in their ESG journey while generating new revenue for themselves. In fact, a majority of tenants are interested in new “as-a-service” models if provided by landlords. Fifty-six percent of tenant respondents are interested in “energy and water management-as-a-service” and are willing to pay for facilities such as onsite and renewable energy, water usage monitoring, and rainwater harvesting.[9] Forty percent of tenant respondents are also interested in “lighting-as-a-service” where they pay for lighting but not for fixtures.[10] In addition, owners can generate new income by aggregating and sharing data-backed insights (data monetization) with tenants to help them make more informed decisions around resource usage and their carbon footprint.

Owners can also generate revenue by selling carbon credits, which they earn after reducing their carbon emissions or investing in initiatives around renewable energy and reforestation. And owners and developers can tap into different climate incentives, rebates, and funding programs offered by all levels of government. This can help offset some of the costs of investing in sustainability initiatives and contribute to the bottom line of real estate companies.

Changing the mindset

The open secret to ESG profitability lies in changing the mindset and considering ESG efforts an opportunity to improve operational efficiency, boost revenue, and increase valuation and returns. Real estate companies need to evolve to leverage new technologies and business models around ESG initiatives to make a stronger business case and remain relevant to their competition and stakeholders. For more detailed insights on charting a profitable and revenue-accretive path across the real estate life cycle of design, build, and operate, please refer to our report on [the future of sustainable real estate](#).

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Endnotes:

1. In November 2022, Deloitte Canada surveyed top executives from 100 major Canadian real estate owners and tenant companies and asked the survey respondents about the current state and their expectations for real estate fundamentals, capital markets, leasing, digitization & smart buildings, real estate-as-a-service models, data, and ESG in 2023 and beyond. The report on these findings will launch in June 2023.
2. Rasa Apanaviciene, Andrius Vanagas, and Paris A. Fokaides, "Smart Building Integration into a Smart City (SBISC): Development of a New Evaluation Framework," MDPI, May 1, 2020.
3. John Hatcher, "Financing smart buildings – delivering value in the "new normal," Smart Buildings Magazine, June 22, 2021.
4. Marco Macagnano and Saurabh Mahajan, "The future of sustainable real estate is smart: How to convert decarbonization and net-zero challenges into new and profitable opportunities," Deloitte Canada, December 2022.
5. In November 2022, Deloitte Canada surveyed top executives from 100 major Canadian real estate owners and tenant companies and asked the survey respondents about the current state and their expectations for real estate fundamentals, capital markets, leasing, digitization & smart buildings, real estate-as-a-service models, data, and ESG in 2023 and beyond. The report on these findings will launch in June 2023.
6. Ibid.
7. Ibid.
8. Ibid.
9. Ibid.
10. Ibid.

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