



ESG real estate insights

Global perspectives on sustainability and climate

Governance in the real estate sector

Addressing the G in ESG

Real estate (RE), like many sectors today, is experiencing increased stakeholder pressure to address environmental, societal, and governance (ESG) issues. But when it comes to the governance component of ESG management, RE companies face a number of unique challenges. Given the variety of stakeholders and RE's unique positioning in both the B2B and B2C arenas, RE firms must work to strike a balance between stakeholder expectations and business objectives.

A hyper-regulated ecosystem, substantial dependence on public sector authorities, increased impact on communities, multi-entity holding structures and their complex management—and more—make developing and implementing environmental and social policies a complicated endeavor for RE companies. For example, waste treatment and disposal at construction sites may need to be managed differently in various geographies due to differing regulations and with a wide variety of stakeholder expectations. Or labor relations and human rights may have a high level of variance in multi-site environments due to disparate human capital and retention practices.

This unique multi-stakeholder ecosystem holds increased potential for both positive and negative impacts—and demands not only highly effective governance but a mature and developed capability to sense stakeholders and their needs. To do this, RE companies need to build an ESG governance framework with trust at its center that can help them identify and address both the risks and opportunities ESG presents.

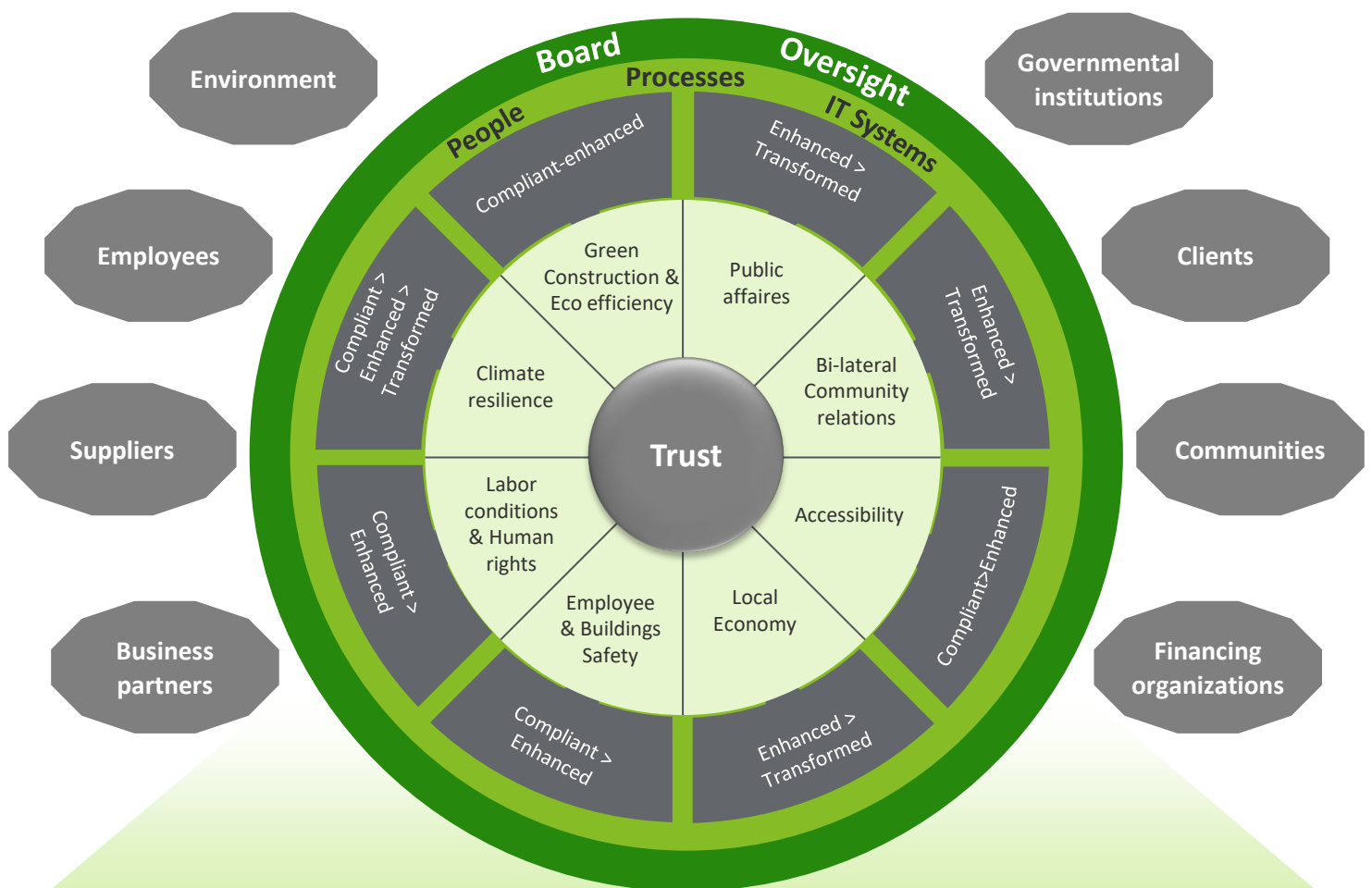
As part of this framework, RE companies need to consider the most pressing ESG trends within the RE sector. These include:

- **Green construction and eco-efficiency:** Design and construction should help minimize negative environmental impact, including along supply chains and the eco-efficiency of buildings.
- **Public affairs:** The RE sector's increased interaction with both public and government institutions requires specific focus on the level of engagement and communication.
- **Bi-lateral community relations:** RE companies should engage with local populations at the earliest stages of construction to minimize negative impacts and disruptions as well as address the role RE can play in building communities.

- **Accessibility:** As an enabler of buildings and infrastructure, RE has a responsibility to help make equitable facilities accessible to all.
- **Local economy:** A sustainable supply chain can be a significant differentiator among RE players; promoting local partners creates positive impact on both the environment and the community.
- **Employee and buildings safety:** RE companies should work to ensure safety during construction phases and as an integral quality of completed assets.
- **Labor conditions and human rights:** As one of the largest employers around the world and dealing with numerous social issues, the RE sector is in a position to respond to labor and human rights pressures.
- **Climate resilience:** The ability to anticipate, prepare for, and respond to the impacts, disruptions, and transition risks associated with climate change.

Real estate ESG governance framework

Building a sustainable and trustworthy real estate ecosystem



ESG maturity model

Each major pillar of the framework is identified by the related maturity level of ESG governance.



Compliant

Meets different ESG regulation requirements, manages reporting related relevant data timely and accurately reports on required topics.



Enhanced

Accelerates ESG data, metrics and KPIs in defined business aspects and regularly includes ESG considerations in decision making processes.



Transformed

Invests in ESG as a competitive advantage and brand differentiator to support business growth. ESG is an integral part of doing business.

Successful management of these trends can considerably improve trust among relevant stakeholders and, given their impact on risk and opportunity, should frequently appear on C-suite and board agendas. Boards should also seek out leaders with stakeholder relations management capabilities. By incorporating stakeholder relations into enterprise risk management and business strategy, it can serve as the foundation for a company's governance of environmental and societal initiatives.

Despite the complex and multi-dimensional challenges the RE sector faces in fulfilling such ESG targets as the United Nations Sustainable Development Goals, the time to act is now. Boards and the C-suite have a duty to manage the risks associated with ESG and develop governance KPIs that can reassure stakeholders that ESG efforts are being implemented and measured. With a marketplace increasingly aware of ESG, strategies that incorporate environmental and societal issues with concomitant governance not only will help an RE company meet their goals but also provide them with competitive advantage.

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