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Real Estate Predictions 2022

Incorporating ESG: Living Up to
Stakeholder Expectations and
Business Opportunities

Five Steps to Make a Tangible Impact



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Environmental, Social, and Governance (ESG) issues have emerged as a top focus, and companies need to respond to meet growing investor, tenant, and employee expectations. According to 60% of Real Estate respondents of the **2022 Deloitte Center for Financial Services Outlook Survey**, ESG initiatives are driving new business opportunities for their organization, and half of them think that these initiatives are giving them a competitive edge. What can you do to prepare for the new market realities?

Be an Industry Leader at the Frontline on Addressing Climate Risk?

The CRE sector has a huge role to play in helping combat climate change. According to Architecture 2030¹, a non-profit environmental advocacy group, buildings are responsible for nearly 40% of annual global carbon dioxide emissions. Of these, 28% are caused by building operations, and the remaining 11% by building materials and construction (embodied carbon). As the world transitions into a lower-carbon economy, Real Estate leaders can make an impact: first by collecting and assessing data on the environmental impacts of building operations, then by investigating and implementing resource efficiencies, and finally by partnering with developers who use sustainable practices and materials.

Green Leasing Offers Upside

By "green leasing" we mean that tenants either commit to or benefit from embracing sustainable practices, such as waste reduction. More and more organizations are focusing on green leasing. Half of respondents of the 2021 RICS Sustainability report claimed that green leases command premium rents, and 30%

state that brown buildings (those without sustainability features) offer reduced rents to compensate tenants.

Align Social Initiatives with Business Opportunities

In our 2022 Deloitte Center for Financial Services Outlook Survey, ESG is a key topic. Turning to the "S" in ESG, only 50% of respondents believe their organization is making strategic investments to improve affordability and quality-of-life issues in communities in which they operate. Less than half of them say their institution is taking steps to increase diversity in the tenant-mix to reflect community demographics. Industry leaders should recognize that stakeholders increasingly expect improvements in these areas. Developer DL3 Realty is now on a mission to revive communities by redeveloping properties in disadvantaged neighborhoods. They have converted a vacated Target store into a Blue Cross Blue Shield customer care center, creating access to health care for neighborhood residents. Another property was repurposed into a call center for Discover Financial Services. This provides employment opportunities for local workers.

Prepare for More Stringent Regulatory Requirements

As regulators step up ESG reporting demands, firms will soon have to prioritize these efforts. In September, the US Securities and Exchange Commission released a sample letter that requests additional information from companies concerning their efforts to address climate change. Recent disclosure rules in the European Union's Corporate Sustainability Reporting Directive and the China Securities Regulatory Commission will also require companies to identify, track, and report on key performance indicators, such as carbon emissions and human capital metrics.

Our survey showed that for smaller firms, quantifying climate risks in their business and portfolio, as well as quantifying DE&I initiatives and social equity across different geographies, was particularly challenging.

1 Architecture 2030, "Why the building sector?," accessed October 8, 2021, <https://architecture2030.org/why-the-building-sector/>

Five Action Steps:

For CRE firms who are aiming to improve ESG governance and impact, we recommend the following actions:

- Design and implement processes to record progress and hold leaders accountable for achieving target metrics. This would improve reporting as regulators increase disclosure expectations.
- Create a road map that establishes and documents ESG strategy as part of the broader business strategy. Effective governance and long-term value creation requires a strong focus on priorities and clear, actionable, and measurable goals. Share this road map with stakeholders and key decision-makers to help assess risk and move initiatives forward.
- Intentionally incorporate ESG into the business from the start of a project to how it is managed daily, post-construction. This involves everything from raw materials to the use of data analytics to help existing tenants reduce their carbon footprint.
- Communicate the firm's ESG vision and plans to investors and employees alike. Sustainable investing is a growing area of capital formation. CRE companies can take advantage of this new wave if they are transparent about how they incorporate ESG into the mission of their company.
- Conduct a robust climate risk assessment to mitigate overall risk and inform strategies.

In the 2022 Deloitte Center for Financial Services Outlook Survey, the responses of more than 400 global Real Estate firms are discussed in detail. As Environmental, Social, and Governance (ESG) have become a key factor to meet growing investor, tenant, and employee expectations, and are driving new business opportunities, it is time to act. Firms that take a proactive role in the field of ESG and value planet and people as much as profits, will definitely create a competitive edge. We hope our survey and five action steps will help you embrace the new market realities.

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