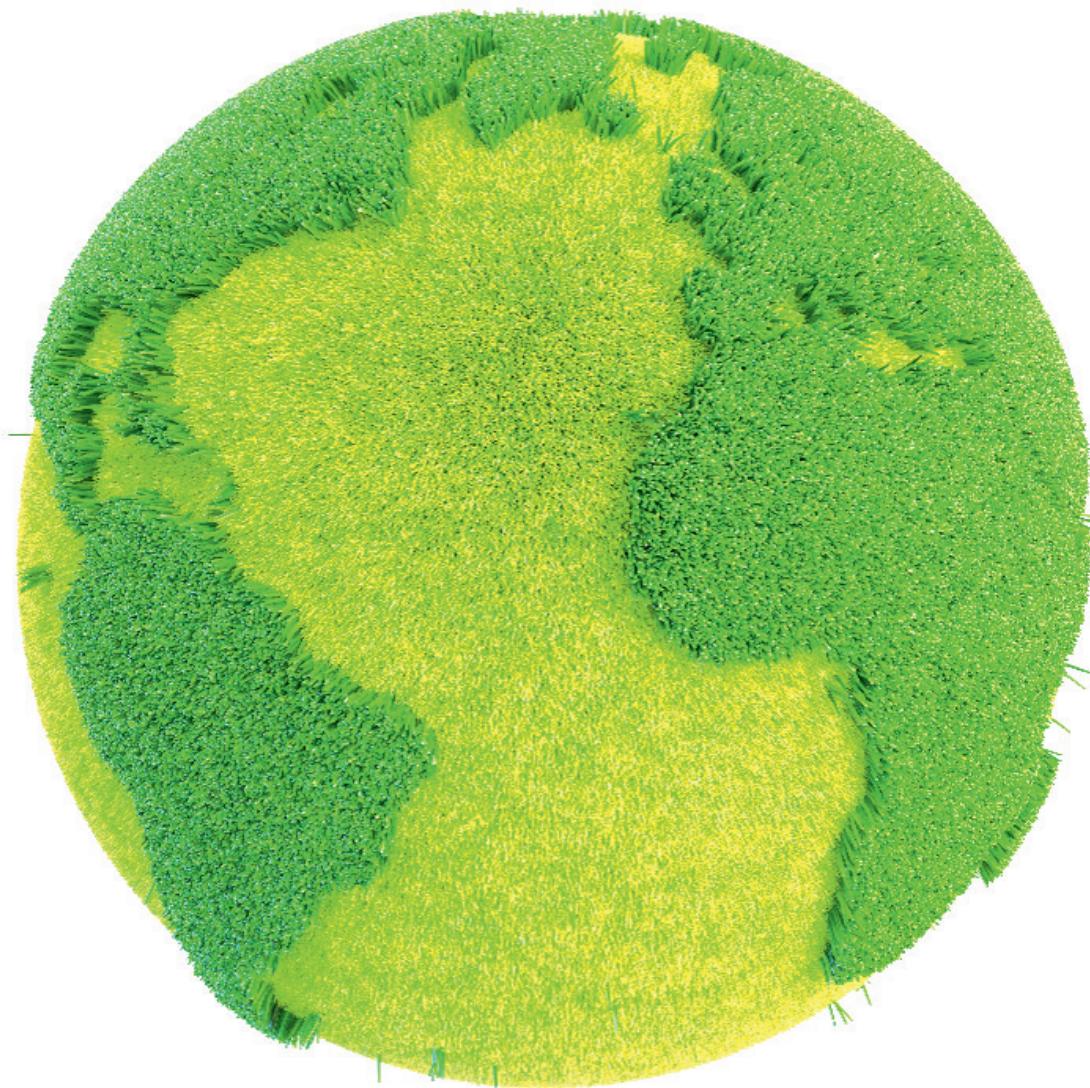


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ESG criteria in real estate



Do not forget "S" and "G" – a holistic approach to ESG is required

Environmental, social, and governance (ESG) considerations have become increasingly important across the real estate sector. Yet, awareness regarding the three ESG aspects seems to differ across "E", "S", and "G". Since buildings are considered as one of the key factors in climate protection, unsurprisingly, there is often greater emphasis on the "E". Social as well as governance elements tend to receive less attention in the public debate. However, it turns out that both "S" and "G" are also of particular relevance for real estate companies.

Real estate companies consider "S" and "G" as crucial

Undoubtedly, ESG is increasingly turning into an important impact factor in the real estate industry. According to the 2020 spring edition of [Deloitte's European CFO Survey](#), most companies already incorporate ESG criteria into their business strategy. About half of the 114 CFOs surveyed from the financial services and real estate industry – a share well above the cross-industry average – stated that even all three of the following aspects apply to their company (see fig. 1).

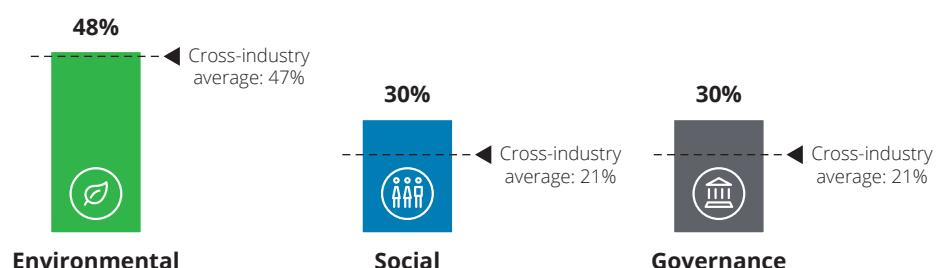
Concerning funding opportunities, the aforementioned [CFO Survey](#) points out that a better disclosure of environmental issues is perceived as the most promising aspect to enable companies a better access to the capital market. Nevertheless, 30% of financial services and real estate companies – 9% more than the cross-industry average – also consider social and governance elements as crucial (see fig. 2).

Fig. 1 – Share of CFOs reporting that all of the three given ESG considerations apply to their company



Source: European CFO Survey Spring 2020 – only financial services and real estate companies.

Fig. 2 – Share of CFOs reporting in which aspect of ESG they see disclosure improvements as an opportunity for their company to gain better access to capital markets



Source: European CFO Survey Spring 2020 – only financial services and real estate companies.

The observed differences across "E", "S" and "G" are not as pronounced as one might assume given the public debate about ESG issues. So, aside from fostering eco-friendly buildings, increasing the amount of green space or using environmentally compatible energy sources, there are also several critical social and governance impacts in the real estate sector.

Governance factors in real estate

Regarding the "G" in ESG, [governance scrutiny](#) is central to companies' ability to continue business operations. While promoting corporate governance can present an opportunity for real estate companies in order to drive long-term value, not addressing governance considerations carries high risks – reaching from penalties and fines to a loss of reputation and market penetration.

Governance elements include, among others, compliance with governance rules and guidelines, ensuring adequate and transparent remuneration, promoting transparent disclosure of governance issues, taking action against corruption, fostering diversity in management and governing bodies, as well as establishing and communicating organizational values. A corporate [culture of ethics, compliance, and integrity](#) is the foundation to create a positive long-term impact.

Social factors in real estate

Recently, the "S" in ESG has received growing attention as the COVID-19 pandemic put greater emphasis on the social factor. Since real estate companies have a significant [social impact](#), they should consider the "S" as a value driver.

Social aspects in real estate include, for example, participation in the rehabilitation of public spaces, affordable housing, social housing or care centers as well as ensuring security in buildings and assuring human rights. From an internal perspective, social elements may also comprise ensuring workplace safety, fostering high standards in labor practices, responsible marketing, and promoting diversity across the company.

Incorporating social considerations can increase companies' ability to attract talent – especially among millennials. The risk of neglecting [social elements](#) can lead to a lack of reputation, lost work, higher employee turnover, increased operating costs, and may threaten the ability to operate.

Implications for real estate companies

Although environmental issues are of particular importance in the real estate sector, ESG goes beyond an isolated consideration of "E". As described above, the role of social and governance elements should not be underestimated, and low awareness regarding "S" and "G" elements may result in high risks – not only penalties and fines, but also loss of reputation and market penetration. Real estate companies need to adapt to changing investor, consumer and commercial expectations – ensuring the acceptance of their business practices and operating procedures by its stakeholders and the public. A holistic approach to ESG is required in order to establish a successful "[ESG-proof](#)" business. This can lead to a greater ability to attract talent, enable reputation gains, and may ensure the social license to operate.

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