



## ESG Talks: Opportunities & Challenges in Real Estate Investment Management Edition #7

### Series Background

ESG (Environmental, Social and Governance) is arguably one of the most discussed topics in the real estate industry, driven by growing public interest in sustainability and new regulatory requirements. Real Estate Investment Managers (REIMs) in particular are strongly affected by this and face various challenges, since ESG requires a broad change of perspective in many business areas. Therefore, as part of this publication series, Deloitte examines the real importance attached to ESG, the

approaches REIMs are taking, where there is room for improvement, and what can be expected from the industry in the future.

The content of this series was collected and analyzed between August and October 2021. In a total of 16 hypothesis-driven interviews, 22 managing directors and department heads of leading European and global REIMs based in Germany and global REIMs based in Germany were surveyed. Thus, the participants represent approximately € 600 billion in real estate assets under

management. The aim of the interviews was to obtain a meaningful picture of the industry on the topic of ESG in order to highlight not only challenges and risks, but also potential solutions and opportunities. The interviews were conducted based on seven hypotheses that participants had to ultimately agree or disagree with in the otherwise free-form conversations. Deloitte now publishes a Point of View at regular intervals as a summary of the interview results for each hypothesis. ➔

## Discussion of Hypothesis #7

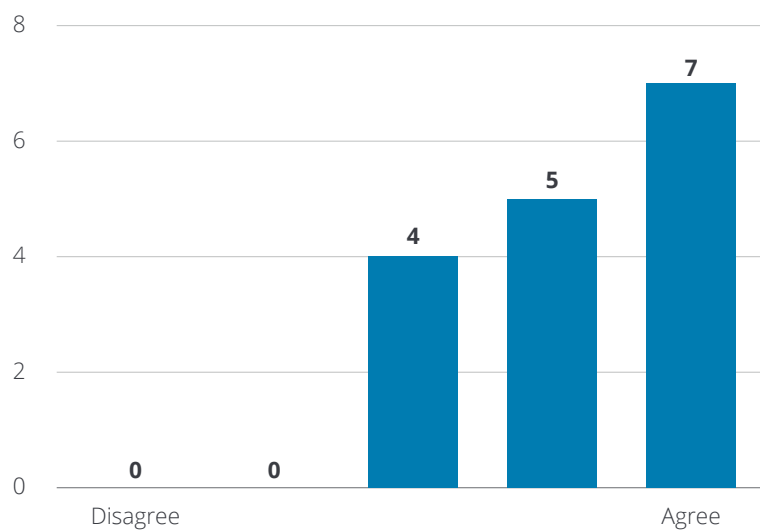
“An ESG scoring/rating is only as good as its underlying data. The incomplete data basis and the need for extrapolation pose major challenges for REIMs.”

In our series of interviews, no hypothesis received as much agreement as this one. By way of introduction, it can be stated that all the interviewees agree that the specific requirements for reporting will continue to increase in the future. This development will not take place overnight, but will be a gradual process, closely linked to constant adaptations and new business models.

It is therefore not surprising that most of the interviewees are convinced that data and its evaluation are the basis for the development of sustainable buildings. With the firm opinion that without data transparency no progress towards “Net Zero” in the real estate sector will be possible, they emphasize the necessity to also collect and evaluate those data that do not (yet) have the desired standard and highlight problem areas in the real estate stock. Only in this way it is possible to measure the development process and achieve actual improvement.

The additional costs caused by data collection are deterrent for many companies. During our discussions, however, it was emphasized that, in addition to the pure regulatory necessity, this effort also results in better portfolio management and an increase in returns for the properties in the long term and is therefore seen as a profitable investment.

**Fig. 1 – An ESG scoring/rating is only as good as its underlying data. The incomplete data basis and the need for extrapolation pose major challenges for REIMs.**



“It must be considered how tenants can be incentivized to provide consumption data. It may be worthwhile to actively involve them in the investigations and analyses and thus provide results that they can also use for their own purposes.”

**Christina Uhkötter, Head of Fund Management,  
Real Estate, Joh. Berenberg, Gossler & Co. KG**

According to our discussions, there are currently several issues in data collection that are causing concern among the dialog partners: on the one hand, data transparency is required by the regulator, which is often difficult or impossible to implement in practice. This problem is mainly since many tenants do not want to make their consumption data available. Investment managers are then left with the option of either accepting corresponding data gaps or extrapolating consumption from common areas or historical tenant data to the entire usable space, which often leads to incorrect results. In addition to the lack of transparency and the resulting lack of control options in these portfolios, this also leads to point deductions in the usual scoring systems. To counteract this complication, tenants should be actively involved in the analyses and incentives created for them to be able to use the results for their own benefit. In the future, the basis for this should be a contractual safeguard, which in turn should be supported by an official set of rules. In summary, therefore, it can be stated that the regulatory system must take care not only to impose obligations, but also to demonstrate opportunities for active shaping. If this has not been done, a joint solution should be sought in constructive cooperation between investment manager, property manager and tenant. Especially in the commercial sector, some data gaps can be closed in this way.

Furthermore, the topic of standardized regulations on an international level was at the forefront of our discussions. While there was a consensus on the need for standardized regulations at the EU level, there was an increasing comment that individual national procedures and regulations must be considered. These differences result from different climate zones but also from the extent of existing infrastructure from renewable and sustainable energy sources and previous systems and interfaces for data collection and processing. Taking these issues into account, it would provide a lot of clarity in the REIM sector if a harmonized market standard for scoring and an accurate guidance on how to measure these metrics would be published. This would put an end to the currently widespread practice of internal company scorings, which are then mostly not meaningful in comparison with other companies due to the different contents and weightings and would enable marketable comparisons.

Most respondents also pointed to the importance of data quality. "Actuals", i.e., real, reliably and promptly measured information, are considered to be the best kind of data. This contrasts with estimates and extrapolations, which, however, usually produce a distorted, if not false, picture. Ideally, at least 90% of the data collected from a building would be "actuals," which would ensure a suitable standard of

measurement. All in all, there is a clear consensus among our colloquists that the transparent disclosure of building data will be inevitable in good as well as in medium to worse areas. This is the only way investors can secure the value of a property and manage the stranded asset risk in the long run.

### Conclusion

As matters stand, the topic of ESG is still uncharted territory for many companies. Upgrading the entire portfolio with devices that enable the measurement of consumption data, such as smart meters, presents many REIMs with major challenges. However, it is undisputed that there is no way around it in the medium term. Currently, there are still many unorganized methods of metering, and most companies are struggling to future-proof their strategy, especially across national borders. However, data gaps as well as any estimates/forward projections should be made transparent in any case to avoid problems with regulators, investors, or the public afterwards. While some investment managers will succeed in exploiting the opportunities offered by digitization in the context of sustainability, there will be others who will miss out on precisely this. In the future, it will be a matter of adapting to new circumstances better than the competition and recognizing and embracing new business models.

"There is still a great deal of uncertainty when it comes to extrapolating consumption data. To minimize the risk that estimated and actual consumption differ greatly, clever approaches such as benchmarking should be used. The worst thing that can happen is that people think they are much closer to their goal than they are because of incorrect estimates. Fortunately, our experience so far has shown that the actuals were often even better than the estimates. "

**Dr. Raphael Mertens, Chief Risk Officer, Global Head of Sustainability,  
Allianz Real Estate GmbH**

# Outlook

This point of view is part of a seven-part series. Each publication presents one of the hypotheses discussed during the interviews.

## Hypothesis #1

"ESG is a marketing tool. The industry puts its image and regulatory compliance ahead of delivering real impact."

## Hypothesis #2

"The sum of individual efforts by REIMs is not enough to achieve the ambitious climate targets of the EU Green Deal. Competitive thinking and a lack of trust confront the industry with obstacles when it comes to collaboration among competitors."

## Hypothesis #3

"REIMs cannot implement a 'manage to green strategy' on their own. Collaboration with tenants and service providers is essential for this. However, concrete initiatives are still missing."

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## Hypothesis #4

"The most sustainable building is the one that is not built."

## Hypothesis #5

"The costs of constructing, refurbishing and operating sustainable buildings will exceed the economic benefits. Sustainable investors will therefore have to forego returns in the future."

## Hypothesis #6

"The integration of ESG along the entire value chain is costly and comes at the expense of profits from management fees. However, the scope for adjustment is moderate. Efficiency pressure on existing business is increasing."

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## Hypothesis #7

"An ESG scoring/rating is only as good as its underlying data. The incomplete data basis and the need for extrapolation pose major challenges for REIMs."

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