Sustainability and ESG reporting

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The concept of sustainability means functioning efficiently now without compromising the needs of future generations. Real estate investors have started to look at environmental, social and governance (ESG) business practices to establish a framework for assessing the impact of sustainability on financial performance in commercial real estate.

ESG

Out of the total world energy consumption, about 35 to 40% of total energy was consumed in buildings in developed countries. Commercial real estate (CRE) is a high carbon asset and ESG reporting is now being used to assess its sustainability:

Environmental factors

A company is assessed by their use of energy, waste generation, pollution produced and utilisation of resources. An ability to mitigate environmental risks may have a direct positive influence on financial performance and increase competition.

Social factors

Diversity and inclusion in the workplace, human rights, and data privacy. Policies and practices that promote equality attract new customers and maintain and develop commercial partnerships.

Governance factors

Relationships with stakeholders and employees; transparency reduces conflict, promotes happier workplaces and retains talented staff.

Landlords

For landlords in CRE, committing to sustainability and high ESG performance means:

1. Properties are better managed and more efficient, and in turn attract more capital investment, reducing their risks, and receiving higher returns on their investments;
2. Properties maintain their value and overall building costs over time are reduced. Ensuring good environmental performance future proofs high ESG performing CRE as we see a shift towards ‘green’ legislation;
3. Increasing competition for CRE spaces that are higher performing ESGs;
4. Greater tenant satisfaction and marketability.

Occupiers

For occupiers in CRE, committing to sustainability and high ESG performance means they:

1. Maintain sustainable business practices and corporate social responsibility, and attract talented individuals;
2. Reduce running costs and overheads and increase efficiency; and
3. Encourage sustainable behaviour internally and externally.

With 64% of commercial buildings in London completed prior to 2000, there is opportunity to enhance value by innovatively ‘greenifying’ these buildings. The move to sustainability is reflected in the focus on CRE being ‘greener’ in order to attract investment, retain talented individuals and grow.

In 2019, the UK became the first major economy to pass a net zero emissions law mandating that greenhouse gas emissions must reach net zero by 2050. These regulations are directly impacting the real estate market, including the London office market, through for example, the Minimum Energy Efficiency Standards regulations.

The UK government has also just started a consultation process on the prospect of tightening minimum EPC ratings to ‘B’ (subject to a payback test) by 2030. This reflects the UK’s drive to increase sustainability both now and for the future.

Positive impact

Both landlords and occupiers can demonstrate their commitment to sustainable business practices by creating accountability for themselves. One way of doing this is to become a B Corporation, as Bates Wells did in 2015.

As well as encouraging innovative and sustainable business practices, joining a community of other businesses that share similar commitments creates many opportunities for collaboration.

If you would like to find out more about being a B Corporation, please contact your usual Real Estate contact or any member of the team.

You may also be interested in our Handy Tips for B Corporations guide