

# ESG IN THE REAL ESTATE SECTOR

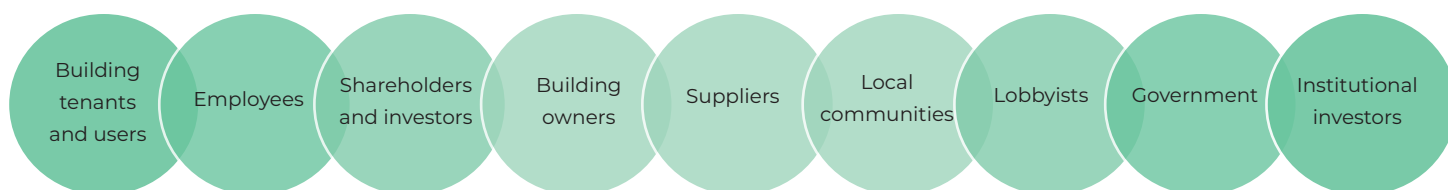


## What is ESG?

Environmental, social and governance (ESG) has become a commonly used investment and reporting term to describe the sustainability performance and ultimate sustainability of companies and organisations.

## ESG in the real estate and construction sector

ESG is a critical topic in the real estate and construction sector. While the sector is diverse, several key themes are emerging and are driven largely by increasing expectations from stakeholders at all levels.



Across the UK and the EU, there has been a significant increase in reporting requirements related to ESG performance. This has drawn attention to companies unwilling or unable to provide evidence to support their ESG credentials and allowed the ESG-ready companies to emerge as leaders in the net-zero era.

## Real estate in the net-zero era

There is increasing pressure on companies in all sectors to reduce their greenhouse gas emissions and develop robust net-zero strategies through initiatives such as SBTi<sup>1</sup>. With the real estate sector sitting alongside the energy and transport sectors as one of the largest contributors to greenhouse gas emissions globally, this pressure is amplified.

Reaching net-zero emissions in the real estate sector is, however, a complex goal. It requires a multi-faceted approach focusing on existing buildings and new developments. To achieve net-zero emissions, the sector must prioritise improving energy efficiency through building retrofits, utilisation of renewable energy sources, and innovative 'green' building design. It also requires a shift towards sustainable construction through environmentally and economically conscious resource management. Beyond reducing emissions, strategies for carbon offsetting and sequestration, such as green roofs and urban forestry, are emerging as essential features in built environment design.

Elsewhere, investors are placing greater emphasis on 'green' or 'ESG-ready' assets, with companies lacking a net-zero strategy beginning to face greater challenge in obtaining investment.

## ESG ratings and the end of greenwashing

The emergence of ESG as a key theme in the real estate sector has led to the expanding use of ESG rating systems. Green building certifications such as LEED<sup>2</sup>, BREEAM<sup>3</sup> and GRESB<sup>4</sup>, to name a few, assess buildings and construction projects against several sustainability criteria and play an increasingly important role in investment decision-making.

Until recently, there was limited regulation of the ESG ratings system in the EU. However, the European Commission has recently proposed<sup>5</sup> enhanced regulation for ESG rating providers with the aim to reduce greenwashing and improve transparency in certifications provided. With such regulation in place, it is becoming increasingly important for real estate companies of all sizes to fundamentally embed sustainability into their long-term business strategies and risk assessment processes.

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Additionally, with the introduction of sustainability reporting requirements like CSRD6 in the EU and Climate-related Financial Disclosures regulations in the UK, large companies will be required to disclose increased climate-related information in their financial statements. This includes upstream and downstream greenhouse gas emissions. Not only will this place pressure on large companies to meet disclosure requirements, but it will have a knock-on effect on companies within the vast supply chain of the real estate sector.

Suppliers will face increasing expectations from their customers to demonstrate their sustainability credentials. With ESG performance becoming a key metric in supplier due diligence, those who are unprepared should expect to see an impact to future revenues.

## The 'S' in the future of real estate

While the 'E' in ESG has been a key focus of late, social issues have always been heavily embedded within the real estate sector. In the UK and EU, rising costs of living have led to an expanding rental market seeking accessible and affordable housing. Developers must now balance the challenge of creating greener buildings, with the need for an increasing amount of affordable housing. Investing in innovative approaches to building design and development are therefore crucial to meet demand while working towards net-zero.

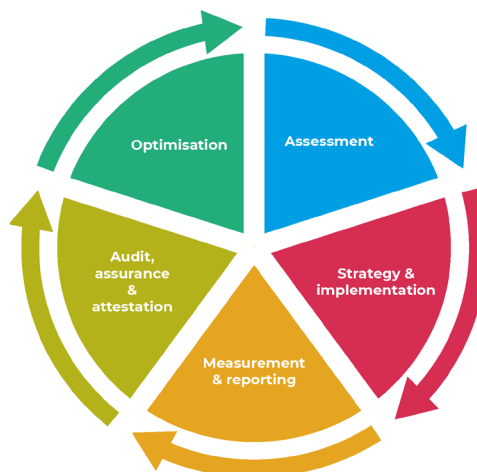
One way in which this issue is being met is through the growing alternative living sector. The alternative living sector is challenging traditional housing models by providing alternative, community and sustainability-oriented residential spaces which reflect evolving social priorities. The rise in popularity of alternative living solutions is testament to a transforming real estate sector, driven by environmental and social expectations.

## The Moore Perspective

Moore Kingston Smith is helping clients across sectors to ready themselves not just to meet their sustainability disclosure requirements in the UK, but also to assist them on their long-term sustainability journeys. Our goal is to support clients from their initial ESG risk and materiality assessments, through to in-depth strategy and implementation of ESG goals.

As an assurance provider, we are also able to provide clients with assurance over their ESG reporting. This is an increasingly important tool to provide key stakeholders with a greater degree of trust over the credibility of information provided.

As a part of the Moore Global Network, we are also uniquely positioned to work collaboratively with firms across jurisdictions and with varying sector-specific expertise.




To find out more about the ESG solutions Moore firms are providing to clients, visit [https://www.moore-global.com/industries/environmental-social-and-governance-\(esg\)](https://www.moore-global.com/industries/environmental-social-and-governance-(esg))

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