ESG and Real Assets -
Investing in sustainable property

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> The integration of ESG criteria in real assets is not as straightforward as in equities or bonds. The second of our three papers on integrating ESG into real assets investing takes an overview of the logic and mechanics of this within the real estate sector.

Building prosperity

The 'greening' of real estate is a key component of tackling climate change. But for asset owners, it is not simply a case of 'jam tomorrow' – deferred returns for a better future – but jam today: it pays. And for asset managers it is an inescapable part of their fiduciary duty.[1]

ESG investing has become mainstream: more than 1400 finance sector institutions managing nearly $60tn of assets subscribe to the United Nations Principles for Responsible Investment (UN PRI). Real estate is a significant component of this. The popularity of real estate with institutional investors fluctuates, but pension schemes had an average of 8% exposure in portfolios in 2016.[2]

The need for ESG real estate is high, underpinning long-term demand. The buildings sector requires about $4tn between 2017 and 2030 in order to hit climate change targets, according to the World Economic Forum (WEF) and the International Energy Agency (IEA).[3] Just as we noted in the previous paper on infrastructure, there is a massive gap between investment targets and existing supply.

> "In Europe and the US, more sustainable buildings are being constructed than traditional buildings."

Nevertheless, green real estate investments are growing strongly. In Europe and the US, more sustainable buildings are being constructed than traditional buildings, with the total stock of green real estate almost half of total buildings in the US. Energy efficiency investments have increased steadily, growing by 12% in 2016, with a total spending on energy-efficient products and services of $406bn. Incremental efficiency investments in buildings alone, including appliances and lighting, were $133bn.[4]

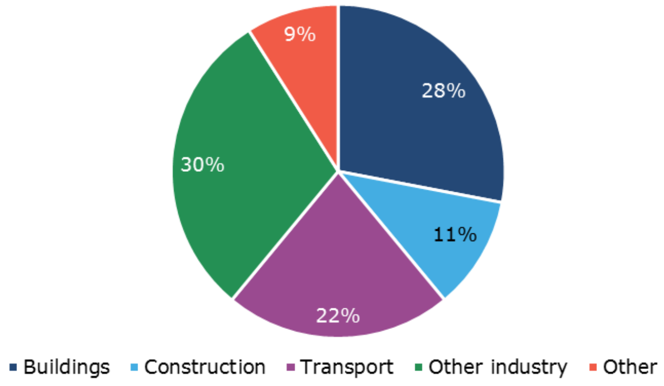
ESG investing, by definition, covers governance and social issues as well as environmental issues: transparency, anti-corruption practices, labour laws and community engagement, to mention a handful of a long list of relevant issues. However, because of the huge share real estate takes in resource and energy usage globally, environmental issues are very much to the fore with sustainable real estate and dominating the challenges for ESG integration in the asset class.

The need for green real estate

'Green real estate' is the catch-all term for the inclusion of ESG criteria in the construction, management, and investment in property. Because buildings and construction activities account for 36% of global final energy use, and 39% of energy-related carbon dioxide (CO_2) emissions when upstream power generation is included, the push for lower CO_2 emissions is at the core of sustainable property development (Fig. 1).

[1] Fiduciary Duty in the 21st Century, www.fiduciaryduty21.org.
[2] https://www.ubs.com/content/dam/static/epaper/index.html?id=051c0322
[3] IEA, Energy Technology Perspectives 2017.
[4] Global Status Report, 2017.

Fig 1: Global CO2 emissions by sector



Source: International Energy Agency, Fidante Partners.

The energy intensity (use per m^2) of the global real estate sector needs to improve by 30% by 2030 relative to 2015, to meet the targets in the Paris Agreement on climate change. Despite the urgency of emission reduction, real estate-related CO2 emissions have continued to rise by about 1% a year since 2010. While energy intensity continues to improve at about 1.5% a year, global floor area continues to grow by about 2.3%, cancelling out the relative improvement.

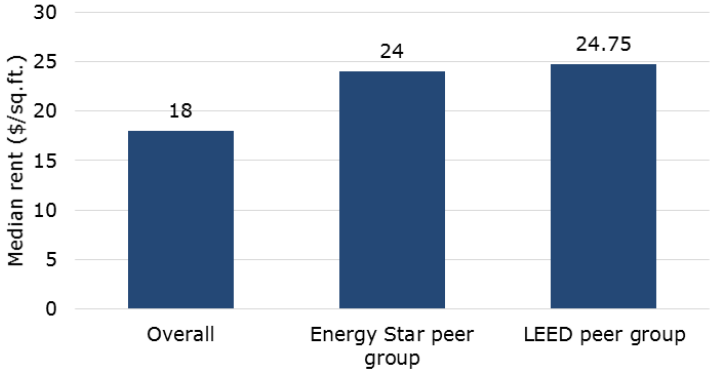
The costs – financial and human – of not addressing this are vast. Already, more than four million deaths annually are attributable to illness from household air pollution. By 2070, it's estimated that 150 million people will live in large coastal cities at risk of coastal flooding, threatening $35tn of property— about 9% of the global GDP.[5] That is just coastal flood damage. Inland, other built-up areas will have to (and indeed are having to) contend with increased risk of extreme weather. The built environment needs to both reduce emissions to limit the risk, and be physically robust enough to mitigate events for its inhabitants.

Green real estate can pay well

As stated in the introduction, this isn't simply an ethical issue – green real estate pays well. It adds value for direct corporate occupiers, as illustrated in a recent UN report which highlighted the experience of Skanska's renovated office in Bentley Works, UK. The building was certified as BREEAM Excellent,[6] after which average employee sick days decreased by three days compared to other Skanska offices. A US study found the potential benefits of improved indoor air quality and healthier workplaces to be worth $17bn to $30bn a year, with additional savings of $20bn to $60bn from improved employee productivity.[7] Alongside such productivity improvements for corporate occupiers, one would expect lower operational costs, not to mention potential image benefits for the occupier.

[5] UN PRI, Sustainable Real Estate Investment: Implementing the Paris Climate agreement – an action framework.
[6] BREEAM (Building Research Establishment Environmental Assessment Method), first published by the Building Research Establishment (BRE) in 1990, is the world's longest established method of assessing, rating, and certifying the sustainability of buildings.
[7] William J Fisk, Health and productivity gains from better indoor environments and their relationship with building energy efficiency. Annual Review of Energy and the Environment, 2000.

Fig 2: Green buildings rent for more...



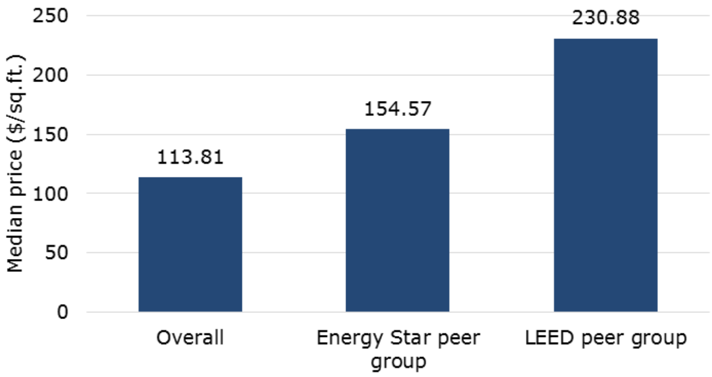
Source: Fuerst and McAllister (2009), Fidante Partners.

This should translate into higher and more stable returns for investors: higher net operating incomes because of higher occupier demand, or, as one research paper put it, the "price mechanism will create price differentials linked to environmental performance and result in the allocation of more capital to environmentally beneficial investment".[8] This comes with the additional potential benefits of reduced vacancy rates, costs of ownership and risk of regulatory action.

ESG has lots of moving parts, and it can be difficult, on a granular basis, to specify the specific value-add of each element at any one time. Nevertheless, aggregate data shows its existence, as does the experience of professional investors. According to Tatiana Bosteels, Director of Responsibility & Head of Responsible Property Investment at Hermes Investment Management: "ESG is part of a whole number of factors that can be integrated into Discounted Cash Flow (DCF) models as part of market signals. It's difficult to isolate the return component of this, but we do know that we wouldn't be able to sell at a given price were ESG not integrated".

A study by Franz Fuerst and Patrick McAllister from the University of Reading[9] confirmed that green real estate commands higher rents, higher sales prices and lower vacancy rates. Certified energy-efficient buildings typically command a price premium of between 31% and 35% over traditional buildings, depending on the type of certification (see Fig. 3).

Fig 3: ...sell for more...

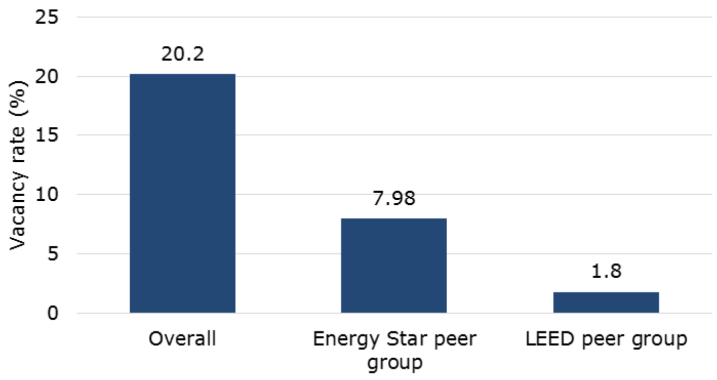


Source: Fuerst and McAllister (2009), Fidante Partners.

[8] Franz Fuerst & Patrick McAllister, New Evidence on the Green Building Rent and Price Premium, 2009.

[9] Franz Fuerst & Patrick McAllister, New Evidence on the Green Building Rent and Price Premium, 2009.

Fig 4: ...and are vacant for less time



Source: Fuerst and McAllister (2009), Fidante Partners.

While some research indicates an increased building cost of about 2% in order to become certified, others see no significant difference in average costs for building projects with a primary goal of certification as compared to non-certified buildings.

Further research published last year confirmed that green-certified office buildings make for more attractive investment propositions in terms of asset value and rent, as shown in Figs. 2, 3 and 4. Such buildings have lower rates of obsolescence and improved tenant satisfaction, leading to higher lease renewal rates. In addition, sustainable properties are less likely to suffer residential mortgage delinquency or commercial mortgage default. This translates to better risk-adjusted returns for fund investors, with 'green' US REITs having been found to have higher levels of funds available for distribution to shareholders.

This potential for higher return also comes with a lower risk, a further attraction, especially at this point in the cycle, with market analyst Preqin reporting that "investors are increasingly seeking to de-risk portfolios in light of the current market conditions".[10] A central part of de-risking is tackling those risks posed by the failure to address ESG concerns.

To the extent that sustainable properties are a more stable source of rental income and subject to less volatile expenses, a portfolio with a higher exposure to sustainable buildings may generate more stable performance across the economic cycle: "Thus, we expect that firms with a higher share of sustainable properties have lower systematic risk".[11]

Required reporting affects premia

The degree of required reporting in a market has a significant effect on the premium green buildings can command, and their overall performance compared to the rest of the market. According to one recent study:

"In the US, a country without requisite reporting, we find that REITs with a more sustainable portfolio experience higher rental income and lower interest expenses, increasing cash flows available for distribution to shareholders. These firms also carry lower systematic risk, are subject to less uninformed trading, and attract higher premiums to NAV. We find less nuanced results for real estate investment firms in the UK, which face mandatory environmental reporting… If voluntary sustainability certifications convey information about the environmental performance of properties, then the value of this signal may be reduced when a baseline level of public disclosure is mandatory and thus easily available".[12]

Basically, a rising tide lifts all boats – mandatory disclosure improves the overall environmental quality of all investment

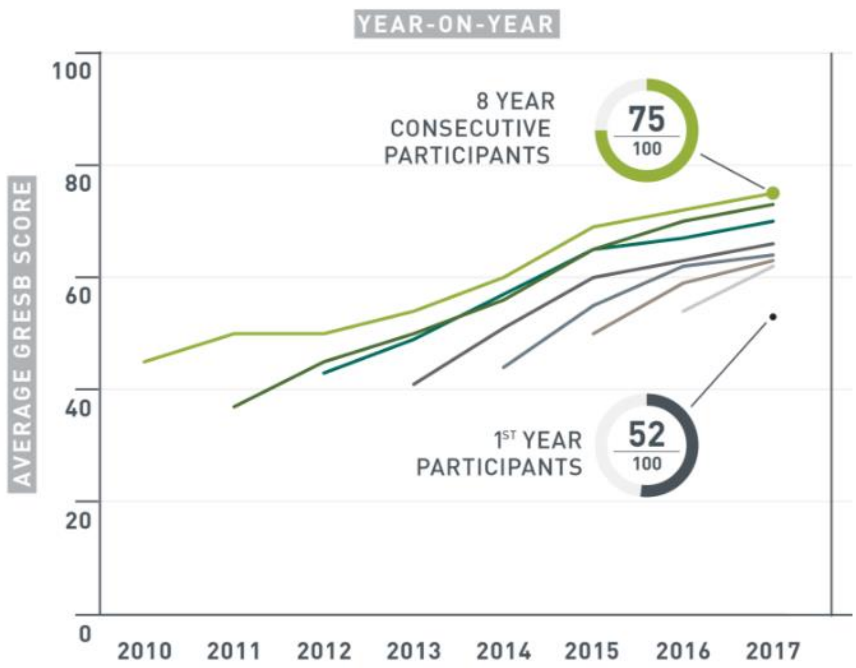
[10] Preqin Quarterly Investment Update, Q2 2018.

[11] Decomposing the Value Effects of Sustainable Real Estate Investment: International Evidence Avis Devine and Erkan Yonder, 2017.
[12] Ibid.

properties. What's more, while the gap closes in markets with such reporting, there is evidence that early adopters keep progressing, building upon their earlier achievements (see Fig. 5), in a way that one would expect to translate into persistent market premia.

Real estate companies and funds that have been early adopters in reporting not only make continuous performance improvements, but also structurally outperform later adopters. In addition, new adopters start at an ever-higher performance level, as more sustainability practices are adopted by the industry.

Fig 5: The virtuous cycle of continuous reporting



Source: GRESB.

Routes to integrating ESG criteria in listed real estate

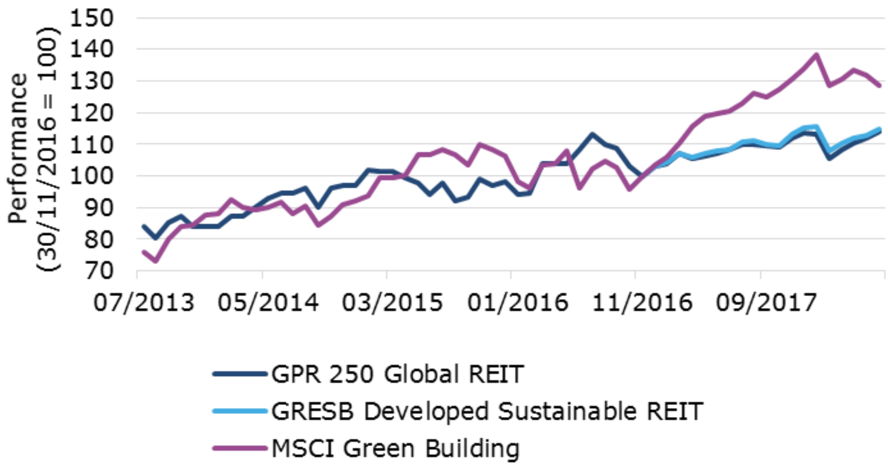
Some years ago, there was a wailing and gnashing of teeth among Britain's chattering classes when it was found that many claimed organic products in London's hip Borough Market where nothing of the sort. It transpired there were few ways of telling your organic from your non-organic ostrich steaks. There was even an article in the Guardian on the subject. Yet still the world turned. If hipster food markets can stumble on in this way, real estate markets certainly can't. This isn't a market for caveat emptor: as stressed above, it's important to have certainty that the asset one buys has the right performance characteristics or the downside will be more than red cheeks at your next dinner party.

Transforming buildings and construction will require a major shift in financing and investments. This includes building the business case for investors, while providing information and financing tools for decision makers. Transparency is key, as is the ability to aggregate that individual reporting into benchmarks.

Building building benchmarks

Benchmarks are available for real estate listed equity investments, albeit with a short history. The MSCI Green Buildings index has been calculated since 2010 and contains companies that derive at least 50% of their revenue from the construction, management and equipment of green buildings. As such, it is a mix of REITs, construction companies and companies in other sectors. In comparison, the Northern Trust GRESB index series has been developed by the Global Real Estate Sustainability Benchmark (GRESB), the leading provider for green real estate benchmarking, and contains only REITs.[13] Our chart shows the performance of these indices in US Dollars normalised to 100 on 30 November 2016 (the start date of the Northern Trust GRESB index).

Fig 6: Performance of listed real estate indices



Source: Bloomberg, Fidante Partners. Data as at 30 September 2018. Past performance is not a reliable indicator of future results

Inclusion criteria frequently rest on various forms of certification – equally as relevant for direct investors, as they increase uniformity and transparency within the market.

Example certifications include: Green Star (Australia), LEED (US), Energy Star (US), Green Globes (US), and BREEAM (UK). Compulsory energy efficiency certification was introduced in the EU in 2008, in the form of Energy Performance Certificates and Display Energy Certificates.

Investing in listed green real estate

Because listed real estate companies (REITs) are typically covered by ESG rating agencies as part of their overall stock coverage, ESG integration in listed real estate is straightforward and tends to follow the same procedures as ESG integration for equities. The same holds true for listed real estate debt.

A special case can and should be made for green bond financing for real estate, "where capital pools wishing to profit from the low-carbon transition are matched with finance instruments that can propel that transition, supported by standards from which third-party opinions and assurances can be issued".[14]

[13] GRESB evaluates performance against seven sustainability aspects and contains about 50 indicators used for assessing the ESG performance of property companies and real estate investment funds. Between 2010 and 2017, the number of real estate investment firms agreeing to have their businesses scrutinized for the GRESB has increased from 198 to 759, representing a gross asset value of $2.8trn.

[14] Positive Impact Investment in Real Estate, Discussion Paper, UNEP FI Property Working Group

European property managers are some of the largest issuers of green bonds, in particular French and Swedish issuers: the largest building green bond issue was by Unibail-Rodamco in France for $1.6bn, followed by Sweden's Vasakronan for $1.2bn, both in 2016.

Dutch mortgage provider Obvion NV issued the first green residential mortgage-backed security – poetically named Green Storm – for EUR 500m in 2016, with a second issue last year for EUR 550m. The assets backing these bonds are a mix of energy-efficient new-build houses plus others refurbished to improve energy performance.

Green bonds have become a significant part of the market, but need to expand at a faster rate to meet capital requirements. Building-related issuance makes up about 17% of the global green bond market, and these help finance CO2-emission reductions of buildings.

The Climate Bonds Standard provides detailed sector-specific criteria for what qualifies as green. This includes proxy indicators for carbon thresholds, such as LEED gold or platinum certification. Only those buildings that comply with the criteria are eligible for inclusion in a Certified Green Bond.

Bodies such as Green Bonds Principles, the European High-Level Expert Group and others are looking to harmonise standards and certification programmes, all of which are necessary supports for the market.

Integrating ESG in direct real estate investments

There are a number of guides available as to how investors can integrate ESG practice into real estate investment. We don't intend to reinvent the wheel, and will summarise what we believe are the most relevant aspects from the Royal Institution of Chartered Surveyors' (RICS) comprehensive guidelines, covering the development, use and recovery phases.[15]

Development

This is of obvious importance – mistakes here are of a very (often literally) concrete nature and costly to rectify. Badly designed and poorly constructed buildings may not only impact on resource efficiency and usability, but also make future refurbishment and recycling difficult. RICS identifies five key issues that are relevant for investors:

- **Land governance:** Developers need to carry out a thorough ESG impact assessment, covering such things as access to clean water, sanitation, food, and so forth, for communities. Such an assessment needs to factor in the impact of any development on all potentially affected groups. Companies also need to ensure that land acquisition is equitable – based on the market value of the land. They should also, where possible, hire local labour and engage local companies. The financial upside is that this is more likely to lead to secure title and confers reputational benefits on developers and their investors.
- **Transparency:** This concerns anti-bribery and corruption practices, and applies to all phases in one way or another. Securing a contract through bribery may benefit the company in the short term, but when generalised, it results in a significant cost on business, such as bribes, facilitation payments and bid-rigging, resulting in costly and inefficient market allocation, not to mention jail. Companies should be required to put in place barriers to prevent this, such as sealed bids or online anonymous application procedures. Investors should expect reporting on how anti-corruption processes are enacted.
- **Workers' rights,** including the right to freedom of association and collective bargaining: Companies should carry out impact assessments on the effects of their activity on labour throughout the global supply chain and should only engage with suppliers and contractors with a proven track record of meeting minimum standards. Prioritising health and safety increases productivity, reduces turnover, along with reduced compensation claims and court cases.

in collaboration with RICS, Global Investor Coalition, and PRI, June 2018.

[15] Advanced responsible business practices in land, construction and real estate use and investment, RICS, 2015.

- **Environmental stewardship:** Companies should carry out environmental assessments, consider climate change mitigations, minimise emissions and water usage. They should also demonstrate that they have investigated the possibility of brownfield rather than greenfield development where relevant. Other measures include the adoption of land development and soil management policies, preserving biodiversity. They should demonstrate that the local impact has been considered, including on infrastructure, transport and hazard exposure.
- **Quality of planning, design and construction:** This is common sense stuff, such as ensuring that buildings are safe, fit for purpose and built to a high quality – common sense, but also demonstrable. Buildings should be constructed to withstand ground movement, weather events, and increased stress and usage. The likely uses and abuses by future occupants should also be planned for, along with the provision of such things as adequate light, air quality, and common areas. Processes should exist to detect and correct mistakes in the construction process. Adhering to these points means insurance costs decrease as build quality increases, along with the longevity of an expensive investment.

Use

This is the period from initial occupation throughout the duration of its use, incorporating operation and maintenance issues:

- **Transparency and disclosure:** Lack of disclosure can make performance data uncertain, the ramifications of which we touched on earlier. Again, compliance policy needs to extend through the supply chain. Investors need to ask if the facilities they invest in have the necessary anti-corruption practices and training in place.
- **Environmental stewardship:** Areas include carbon emissions, waste management, water, energy consumption, with specific emphasis on building occupants. This is reliant on the previous point, as it requires data availability – resource usage and monitoring is an integral part of facilities management, with clear benchmarks and KPIs. The implementation of such measures reduces the risk of early obsolescence and controls costs.
- **Treatment of tenants and communities:** Areas of concern include failure of the landlords to carry out adequate maintenance, arbitrary and unfair rental contracts, harassment of tenants and unfair eviction. Processes should be in place to communicate with tenants, along with grievance procedures. As a result, investors should see improved tenant retention.
- **Health, safety and wellbeing of occupants:** People in OECD countries spend 90% of their time in buildings, so there's hardly anyone at the end of this process that is not significantly affected by this, unless you're Bear Grylls. Policies need to be in place covering disability access, indoor air quality, water and hygiene, reduction of noise pollution, and the provision of outdoor green spaces. Again, this feeds into the bottom line through aiding occupier retention and making the asset more attractive for commercial tenants, protecting human capital.
- **Decent work and human rights within the value chain:** In other words, good working conditions for employees and subcontractors. Companies should be able to demonstrate policies on the exclusion of child or forced labour, and to encourage diversity and non-discrimination across the value chain.

Recovery

Relevant stakeholders in this stage will be land owners, demolition and recycling specialists, planners, designers and developers carrying out refurbishment and regeneration:

- **Strategic site-use evaluation:** Consider whether – and how – to refurbish, redevelop or completely decommission and the ESG implications of this. Are processes in place to determine the impact of all alternatives? If done, this should unlock the land's maximum value for investors.
- **Refurbishment and retrofitting:** Even if all buildings are designed and built in a fully ESG-compliant way, this would only have a minor effect. It's likely that most

buildings that will be standing in 50 years' time have already been built. Refurbishment has a central role to play, and companies need processes in place to minimise emissions and resource utilisation during this stage. Such interventions can run from low level – such as the installation of low-energy lighting and passive ventilation – through fitting solar panels and heat recovery systems and biomass burners to ground source heat pumps and micro wind generators. IEA analysis of the role of digitalisation in buildings finds that smart controls and connected devices could save up to 230 Exajoule (230 billion billion Joule or roughly three times the annual energy consumption of the entire United States) cumulatively to 2040.[16]

- **Waste management, resource conservations and recycling during demolition:** The construction industry is one of the highest generators of waste, particularly in the demolition phase. However, demolition rubble can be crushed and reused in other construction projects, waste wood can be recycled, as can much other waste. Investors must therefore ensure that the companies manage this, minimising environmental impact, and have done a risk assessment before demolishing the structure.
- **Brownfield regenerations:** This is particularly relevant in high population density countries. Management of soil contamination and broader public health issues are crucial issues here.
- **Land recovery and rehabilitation of site:** Most development projects result in varying degrees of habitation loss and soil degradation. Land recovery involves the removal of manmade structures and soil toxins.

> "Digitalisation in buildings could save up to three times the annual energy consumption of the US by 2040."

Steps for asset owners to integrate ESG

Having detailed the *what* needs to be addressed in integrating ESG, we need to look at *how* this is to be done: the "action steps to be taken by practitioners and results sought at each stage of the property investment cycle".[17]

There are three aspects to this:

- **Investment thesis**: Focus on overall impacts – benefits sought, necessary mitigation – the defining of which generates matching investment themes and opportunities.
- **Outputs**: The investment results, quantifying positive and negative results.
- **Outcomes**: How this changes sustainability for the project and wider society.[18]

This, in turn, can be translated into a five-step ESG implementation for asset owners:

1. Develop an ESG strategy

This should not be an abstract mission statement for the good of mankind, but from the outset determine and set appropriate, material and verifiable targets to manage portfolio ESG issues. At this stage, asset owners will need to:

- Define a policy how ESG criteria are reflected in asset acquisition, management and operation.
- Define Key Performance Indicators (KPIs) to measure progress and evaluate new investment opportunities.
- Define reporting standards and frequencies.
- Set clear and quantifiable targets for CO2 emission reduction, water use reduction etc.
- Set clear targets to achieve green building certificates for existing and new properties through refurbishment, retrofitting etc.
- Set targets for 'best in class' properties.

[16] Global Status Report 2017, UN environment.
[17] As outlined in 'Positive Impact Investment in Real Estate', Discussion Paper, UNEP FI Property Working Group in collaboration with RICS, Global Investor Coalition, and PRI, June 2018.
[18] Ibid.

These targets and standards should themselves be informed by:

- The impact of changes in sustainability policy and regulation, including the threat of regulatory action due to such changes.
- The view of ratings agencies, regulators and legal advisers regarding ESG risks.
- Which impacts are already included in the risk assessment, and which will arise over the holding period.
- The impact of each of the above on asset valuations over time.

2. Implement that ESG strategy

This entails the embedding of the ESG strategy in existing risk management processes:

- Implement an active ownership approach by reviewing existing external managers and passive mandates.
- Engage with external asset managers to improve their ESG compliance and divest form non-compliant and reluctant managers.
- Require external managers to actively engage with their underlying listed real estate companies to reduce ESG risks.
- Enforce comprehensive reporting by external managers on ESG procedures and engagement activities.

Key elements include reviewing the selection of the type of investment strategy, with a focus on active management for direct real estate investment and active engagement and proxy voting for equity, debt and bond investments. Where passive mandates are selected, this should be through screening based on sustainable real estate benchmarks and green property ratings (see the Benchmarks section above).

This requires that managers are able to undertake detailed monitoring and reporting through integrated data management systems that provide building and asset level information to owners in a timely, usable way.

3. Align interests – manager, adviser and consultant selection process

The risks identified in the first two steps feed directly into the selection process, enabling a fit between the goals of asset owners and the incentives of managers:

- Mandates for external asset managers should contain clear guidance and requirements for ESG integration.
- Set quantitative targets for ESG compliance and shareholder engagement. These can include such stipulations as the percentage of assets to be powered by clean energy, or targets for the contribution to and engagement with local communities. Reward these targets with additional assets or bonus payments. Likewise, failure to meet these can result in penalties.

"Institutional asset owners can work with managers to define desired impacts and specify them in dedicated mandates", explains Hermes' Bosteels. Any targets should be included in legal contracts for investment mandates and service agreements. In selecting managers, asset owners should require specific description of mechanisms used to embed ESG risks in the buy, hold and sell decisions made on properties, along with examples of managers' experience in executing portfolio ESG strategies. For those investing through the listed equity route, these should be part of the requirements to undertake engagement and voting activities with the assets invested in.

It's vital to agree reporting standards, so feedback loops are in place, setting up step four.

> "Managers need to be able to undertake detailed monitoring and reporting through integrated data management systems."

4. Feedback loop – monitoring and reporting

Although there's only one point below, it's vital as portfolio monitoring is often beset by incomplete feedback loops and lack of supply chain integration, making it difficult to judge efficacy of policies and actions:

- Define clear reporting standards that include ESG criteria and voting engagement.

The ability of managers to do this may itself narrow the field: "Some markets have a large number of small private real estate funds, which don't always have the capability to implement and report ESG procedures. Those that report tend to be the larger, more visible funds", argues Bosteels. However, she says, "The sector is becoming a lot more granular in its reporting".

Performance should be on an agreed frequency, using recognised industry standards and benchmarks: "The regular observation, evaluation, benchmarking and recording of ESG and climate risk management activities should take place routinely within a pre-agreed monitoring and reporting schedule with the appointed manager and advisers… [and] demonstrate how the property portfolio's sustainability performance has changed over previous months and years, and to be able to present such changes on a like-for-like basis, normalised for weather and occupancy."[19]

5. Influence – spreading best practice

Finally, investors can:

- Be an outspoken advocate for ESG integration, supporting industry initiatives and research as well as public policy initiatives.

This is important, as ESG investors can raise overall standards through public policy and sector engagement, promoting "acceptance and implementation of ESG and climate risk measures across the real estate industry. This ensures sector-wide tools are developed enabling industry comparison and better monitoring of the sector's and portfolio's performance".[20]

> "ESG investors can raise overall standards through public policy and sector engagement."

[19] UN PRI, Sustainable Real Estate Investment: Implementing the Paris Climate agreement – an action framework.

[20] Ibid.

Conclusion: ESG 2.0

The bottom line for successful ESG implementation is that it enables investors to command premium rents and asset prices, along with "higher client demand, lower void lengths, lower obsolescence, reduced rates of depreciation, lower operational costs, and higher liquidity". [21] It may thus provide lower risk and potentially higher returns.

But the market moves on. A combination of progressive regulatory pressure, client demand, and available investment premia is making the sector more quantifiably outcome-based – otherwise known as impact investing. "Impacting investing is ESG 2.0", says Hermes' Bosteels: "We need to have the tools to measure and demonstrate the specific outcomes of ESG implementation. For example, we have done a detailed assessment of the Kings Cross development, from job creation, through biodiversity to the increase in green spaces".

> "Impacting investing is ESG 2.0."

Real estate impact investing is a deepening of ESG integration, entailing a comprehensive assessment of positive and negative effects throughout the real estate cycle. In this, ESG impacts are considered in advance of investment decision-making, used to shape these decisions. In other words, ESG considerations move to the core of the investment process.

Investors may implement this in different ways: "'top down' from an institutional strategy (clearly articulated goals, investment and management processes, reporting, etc.) which then results in impact-based investments on the strength of these; or 'bottom up' where funds or investments that are explicit in their extra-financial aims are part of a capacity-building process to improve skills and demonstrate value enhancement to stakeholders".[22]

"We need to be able to demonstrate the outcomes of ESG in the real economy – it shouldn't be what we call blue-washing", says Bosteels, referring to the dangers of using apparent adherence to UN standards to cover a failure to deliver the necessary results.

This requires much more of a 360-degree view than current standard practice, "producing more holistic impact assessments for both positive economic, societal and environmental benefits… [that] does present methodological challenges ... This is particularly the case in management of existing assets as opposed to new development".[23] Nevertheless, that is the logical market direction, and where the best and most stable real estate returns are likely to lie.

[21] Ibid.
[22] Positive Impact Investment in Real Estate, Discussion Paper, UNEP FI Property Working Group in collaboration with RICS, Global Investor Coalition, and PRI, June 2018.
[23] Ibid.

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