



# Real Estate Insight

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Making ESG an integral part of business

May 2022

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# 1. Welcome

For much of the developed world, businesses have moved to a phase of implementing ESG. While every sector has its difficulties in relation to ESG, they are more pronounced in the real estate sector.

According to our research, the real estate sector diverges in many ways from the average business, as surveyed in DWF's Get the message ESG report, where we surveyed 600 senior business leaders with ESG responsibility across the UK, Europe, Middle East and APAC working in real estate, financial services, insurance, government, consumer, tech and infrastructure. For this research we use the real estate portion of the research, of 75 senior professionals.



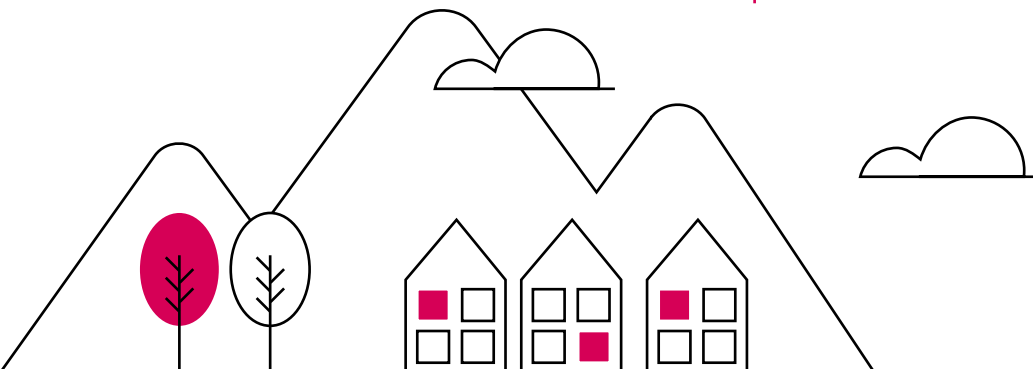
Surveyed 600 senior business leaders across the UK, Europe, Middle East and APAC.

This divergence could be a lost opportunity for the sector, which is one of the main contributors of environmental impact. The built environment contributes 40% of UK greenhouse emissions<sup>1</sup> and 36% of global energy consumption<sup>2</sup>. Progress in this sector has real impact.

Consultant KPMG described the shift to net zero as the 'next industrial revolution'<sup>3</sup>, representing a huge opportunity for those firms that can adapt and move forward with a more sustainable agenda. On the other side, consumers want more sustainable housing and lower energy bills, which better housing stock can deliver.



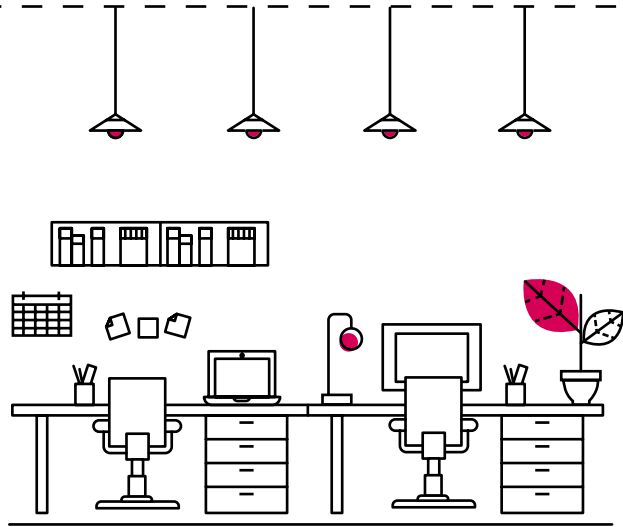
The built environment contributes 40% of UK greenhouse emissions and 36% of global energy consumption.



1 [www.ukgbc.org/climate-change-2/](http://www.ukgbc.org/climate-change-2/)  
2 [www.worldgbc.org/news-media/global-status-report-2017](http://www.worldgbc.org/news-media/global-status-report-2017)  
3 [home.kpmg/xx/en/home/insights/2020/06/kpmg-impact/cop26-reflections-implications-for-business.html](http://home.kpmg/xx/en/home/insights/2020/06/kpmg-impact/cop26-reflections-implications-for-business.html)

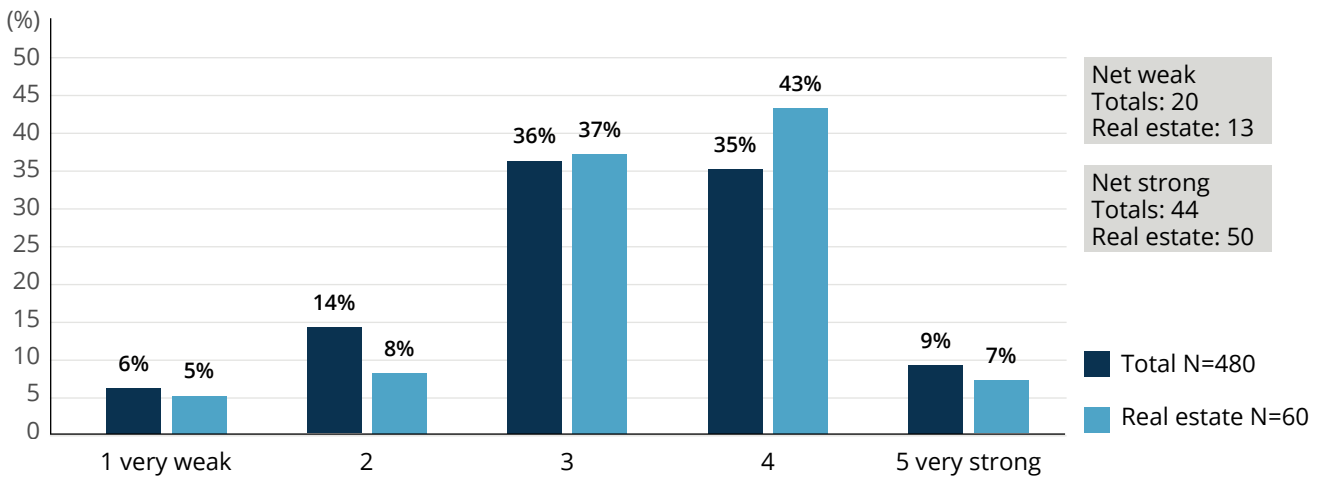
For commercial real estate, UK and global CEOs tell KPMG, in its Outlook 2021<sup>4</sup>, that most employees will work remotely at least two to three days a week. This gives commercial landlords an opportunity to address the waste in the system and make commercial stock ready for a new epoch of working and living.

Real estate companies believe that their performance on ESG issues is stronger than average, with 50% of real estate respondents rating their performance as strong or very strong compared to 44% on average.



**Real estate: over-confident of ESG performance?**

**Q** On a scale of one to five, how would you rank your company's ESG performance to date?



**How would you rate your ESG performance to date?**

However, when digging a little deeper into the data, we can see that the sector is by and large behind on ESG policy and practice, and that ESG measures may be more self-serving rather than adopted for an ESG agenda.





## 2. A missed opportunity

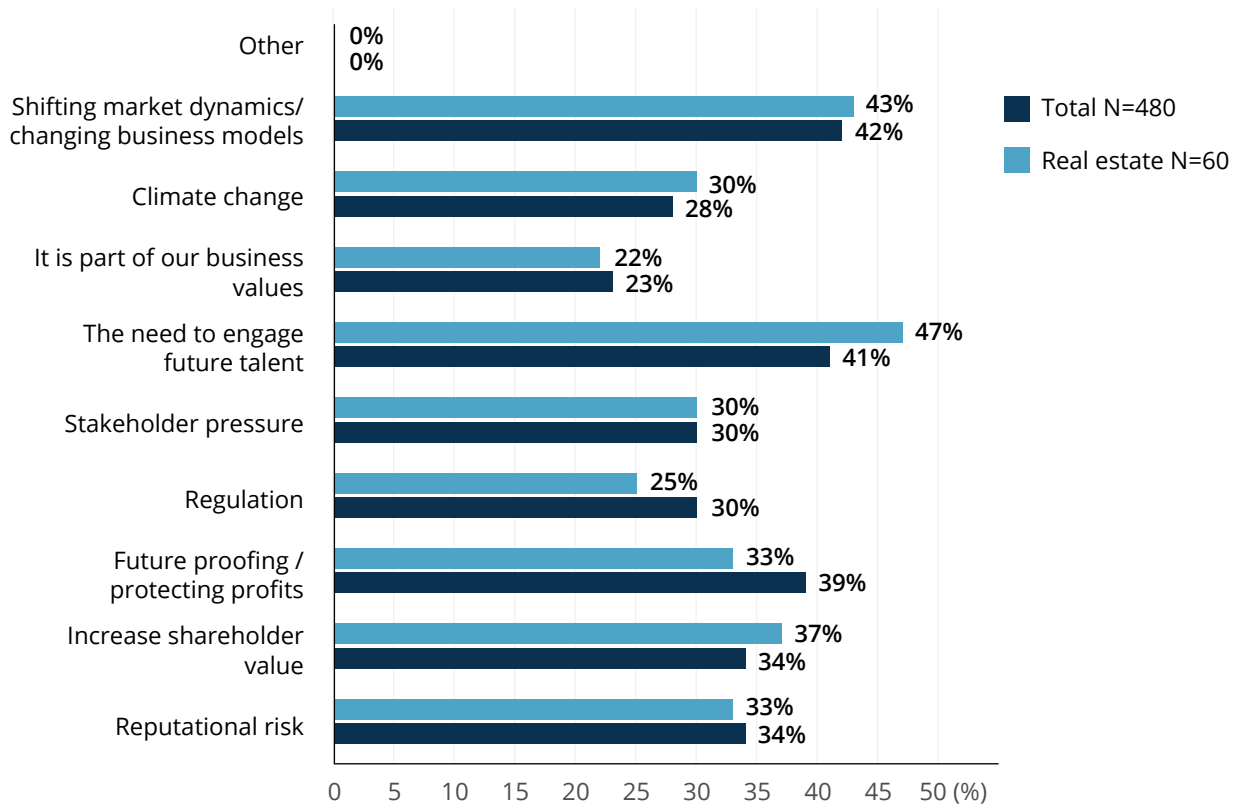
While real estate respondents say that their ESG performance is better than average, our data shows inaction in this matter, meaning firms fall short of this confidence.

When asked why ESG is important to their business, real estate respondents were far less likely to say that they would be future proofing or protecting their business (33% real estate against 39% total).

However, in responding to the same question, they were more likely to say ESG was necessary to engage future talent (47% real estate vs 41% total), and only slightly more likely (43% real estate vs 42% total) to cite shifting market dynamics or changing business models.

### Real estate firms want talent and need to adapt to a changing market

**Q** Why is ESG strategically important to your business today?



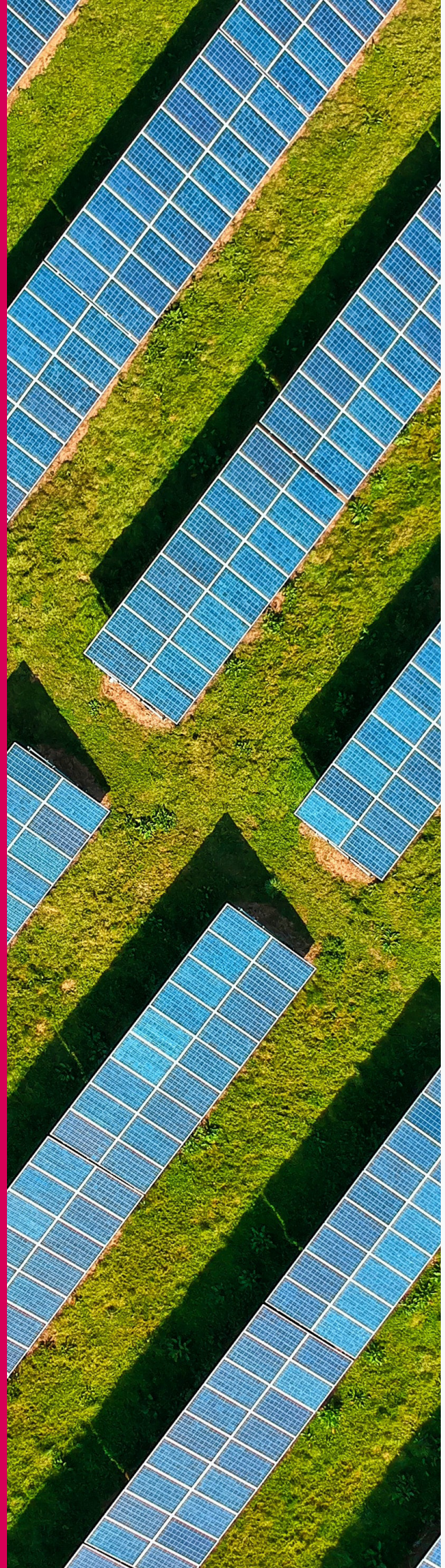


### Why is ESG strategically important to your business today?

Real estate firms show a significant increase of engagement with ESG policies over the pandemic period, showing they are more reactive rather than proactive.

For example, real estate firms were far more likely to agree (52% real estate vs 45% total) with the statement 'Our company has re-examined its ESG goals in response to social trends (BLM, #Metoo, social mobility, etc).

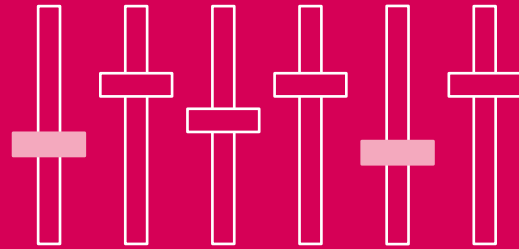
Respondents were also more likely to disagree (47% real estate vs 41% total) with the statement 'ESG goals have always been part of our company's values' and agree (40% real estate vs 34% total) with the statement 'Beyond regulatory requirements, ESG is not a strategic priority'.





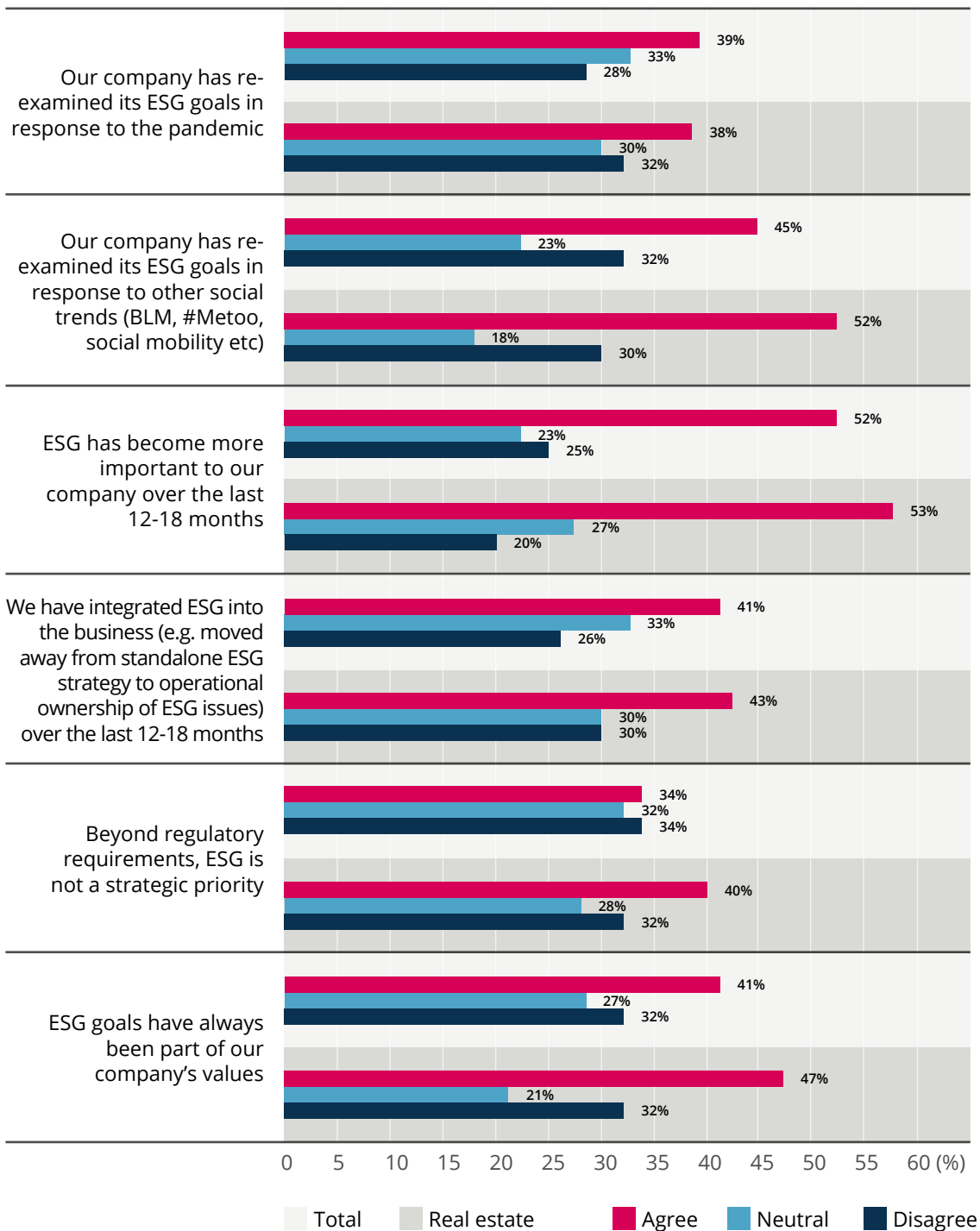
## Please rate your agreement with the following statements

This shows a sector that is reacting and understands it has to change in order to stop falling behind. The real estate sector has a history of not adapting to social trends, not actively adopting ESG policies, and not seeing any pressing demand to do. But now the sector is waking up to the opportunities that are emerging, and ESG is at the heart of this.



### Reactive over the pandemic period

**Q** Please rate your agreement with the following statements:



## 3. The tech (box)

**Building Information Modelling (BIM) gives architects, engineers and clients the ability to dramatically increase the efficiency of a finished building before a brick has been laid.**

By building a digital twin, or virtual replica, of the finished structure, it's possible to model how small changes can increase the efficiency of the overall structure.

This same technology can be used to manage the efficiency of both existing and newly completed buildings, allowing those managing real estate stock to lower energy usage and so drive carbon emissions down.


Sensors can also help to manage buildings more efficiently. By tracking usage within the building, sensors can monitor the movements of inhabitants and adjust heating, air conditioning and lighting to give the maximum benefit for the minimum impact.

Lastly, buildings can take advantage of natural resources. By using renewable sources of power, such as photovoltaic cells on roofs or wind turbines for communities or business complexes,

carbon emissions can be offset. By recycling rainwater for use in toilets and separating 'grey' water, which can be easily recycled, away from water designated for sewage gives a significant opportunity to drive down water consumption.

Making buildings 'smarter' and less environmentally damaging does require some initial investment, but the benefits stretched over many years will be significant, and give those managing properties the ability to maintain the value in them.

Real estate respondents do understand this better than most, with only two in five (42%) saying reducing impact on the environment would have a commercial impact, compared to nearly half (49%) of all firms. Of course, these numbers are too high for both sets of respondents because reducing environmental impact is an opportunity, and should be seen as an investment rather than a cost.



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# 4. Talent and accountability

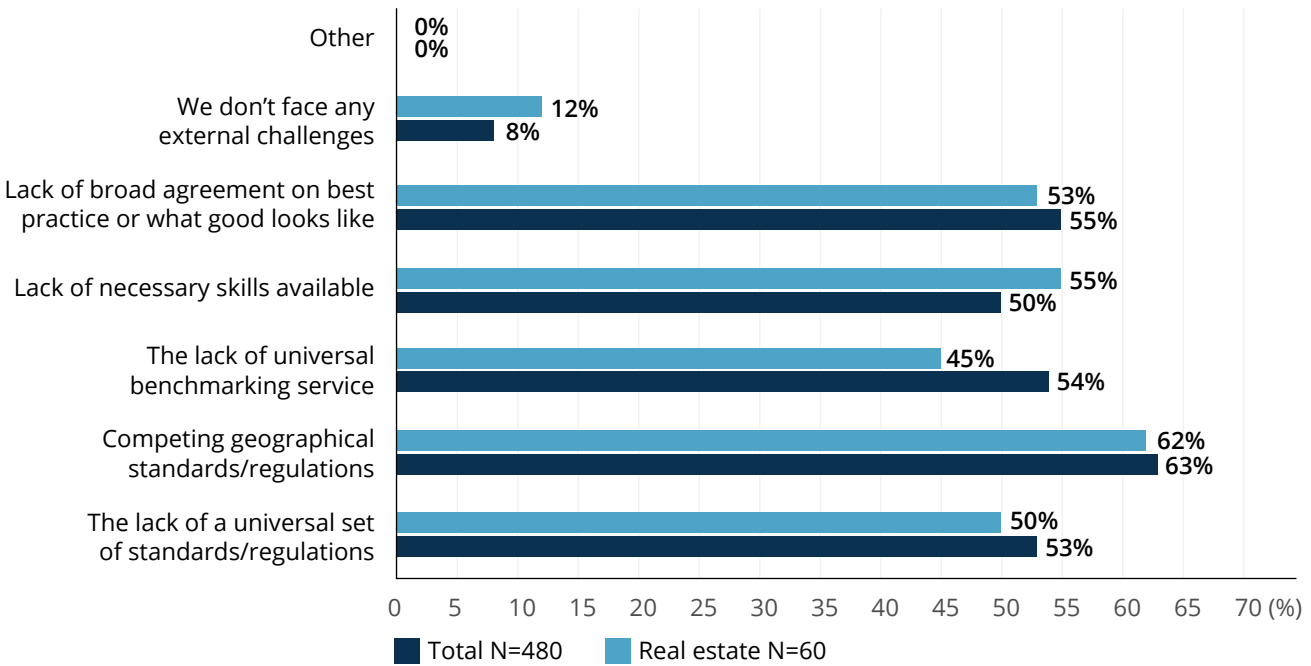
The real estate sector seems to be lacking the right ESG talent, or talent at the right level according to a number of metrics.

Almost half (48%) of real estate respondents say they lack the data to understand their starting position, compared to 41% of all firms. In addition, real estate firms are more likely to have different parts of the

business dealing with the different elements of Environmental, Social and Governance (52% for Real Estate against 44% of all firms).

### Real estate firms want standardisation of standards and talent

**Q** What are the biggest external challenges your company faces in implementing an ESG strategy?



## What are the biggest external challenges your company faces in implementing an ESG strategy?

When asked what the main internal challenges are for real estate firms, more than half (55%) say they lack the necessary skills, compared to 50% of all firms.

Other responses to the same question show the bind that real estate firms find themselves in, with far fewer (45% in real estate compared to 54% of responses from all sectors) saying they lack a benchmarking service.

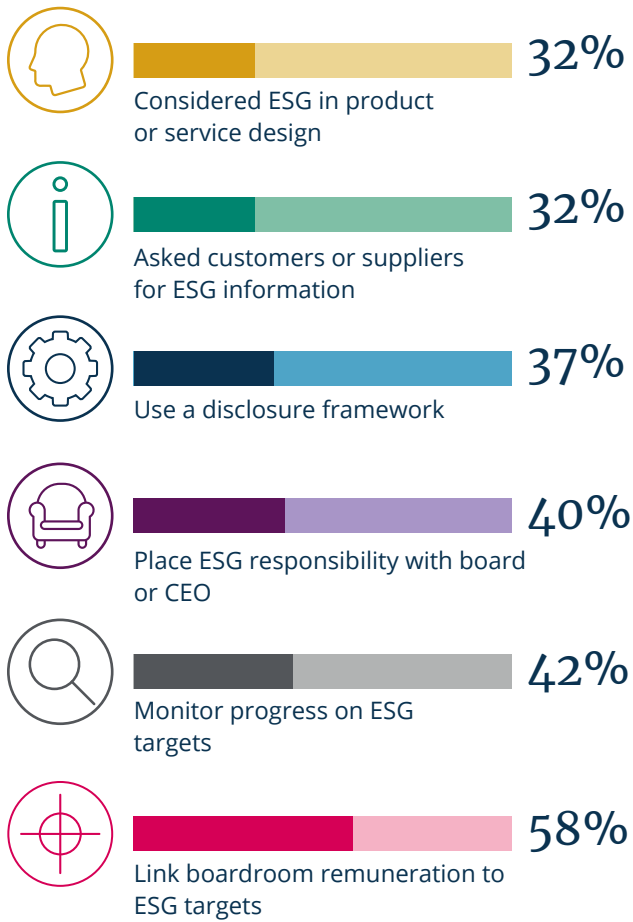
In many ways the real estate sector is ahead of other sectors, with well-defined measures in place going back many years, whether that's BREEAM<sup>5</sup> or LEED<sup>6</sup> for new buildings, or in the UK, Energy Performance Certificates<sup>7</sup> for both residential and commercial property<sup>8</sup> and there are many international equivalents.

This shows a clear disconnect – the sector has long had usable targets and metrics, but lacks the right talent to take advantage and use these metrics for their advantage.

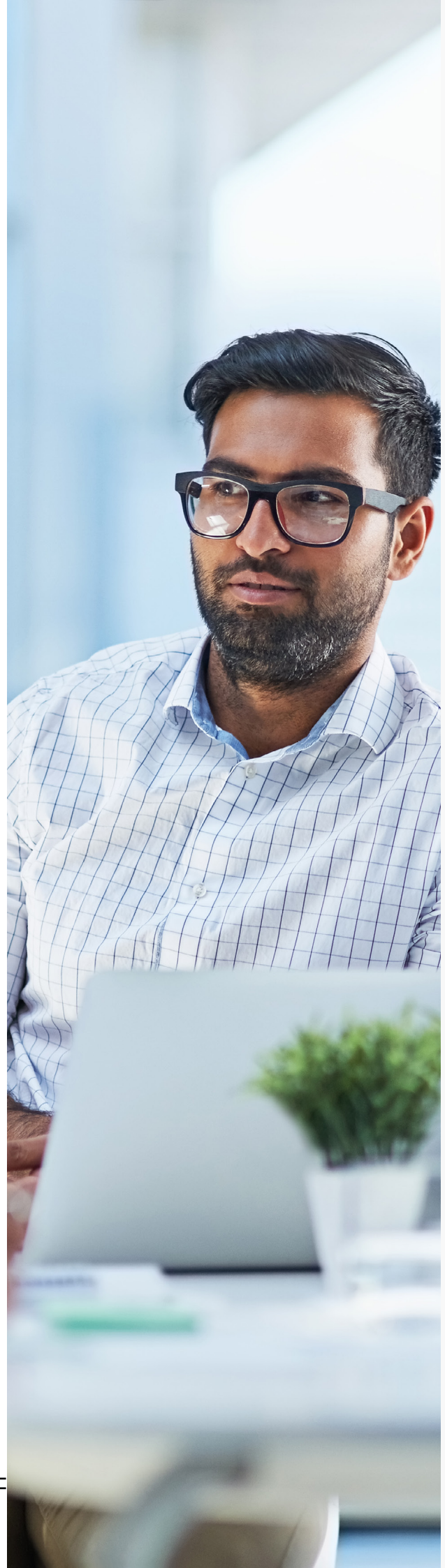
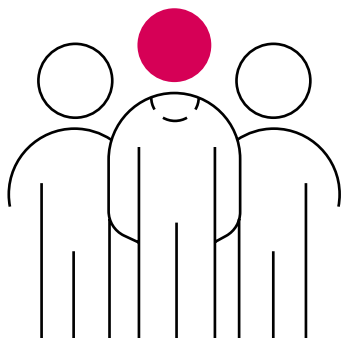
5 [www.breeam.com/](http://www.breeam.com/)  
 6 [www.usgbc.org/leed](http://www.usgbc.org/leed)  
 7 [www.gov.uk/buy-sell-your-home/energy-performance-certificates](http://www.gov.uk/buy-sell-your-home/energy-performance-certificates)  
 8 [www.gov.uk/energy-performance-certificate-commercial-property](http://www.gov.uk/energy-performance-certificate-commercial-property)

### Accountability

Real estate firms are slightly ahead of average in taking ESG into account, but the overall take-up remains low. For example, the proportion of the real estate sector to have adopted the following ESG measures:

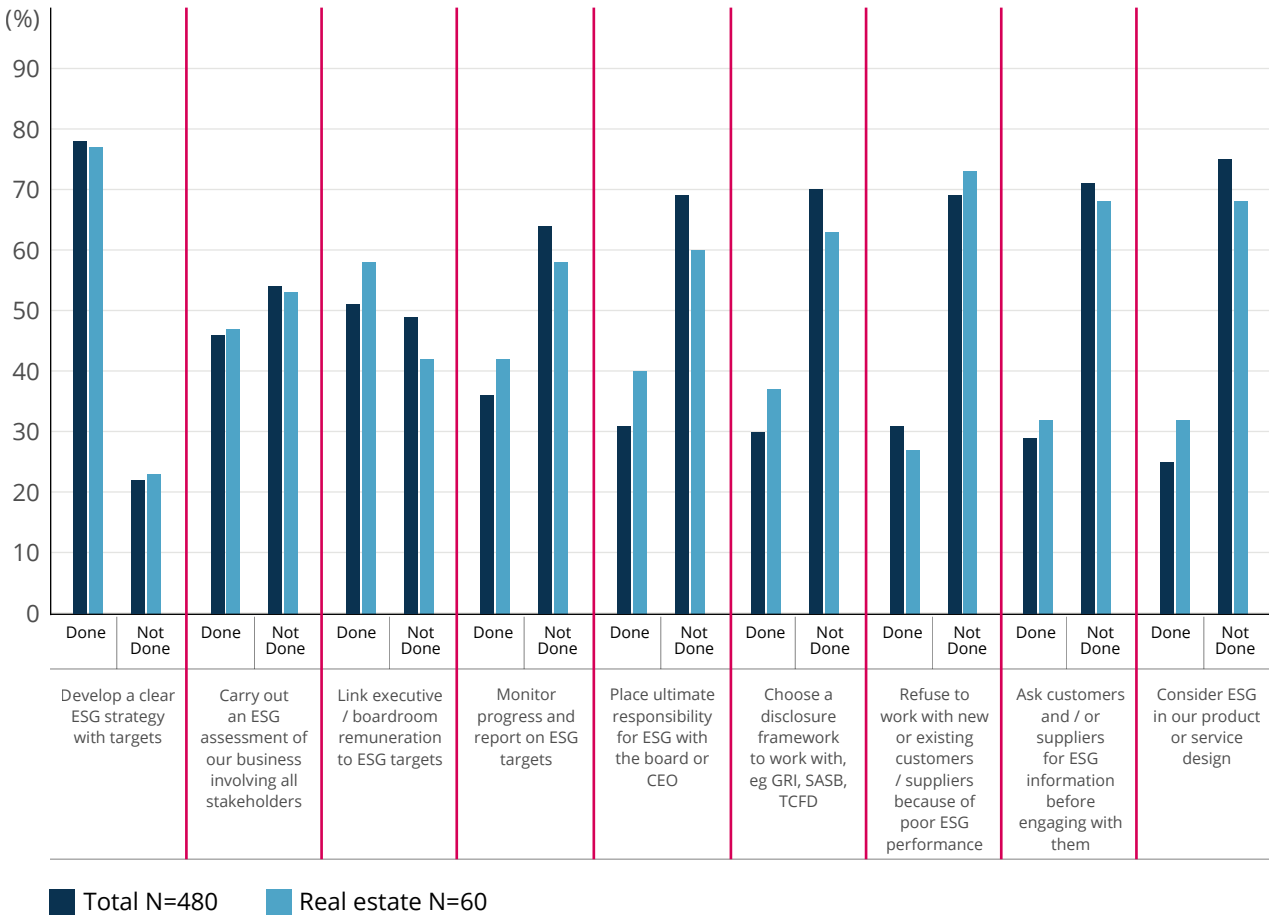


However, real estate firms are less likely to have refused to work with a customer or supplier than average (27% real estate vs 31% total), showing that the bottom-line trumps ESG concerns.



**Real estate firms are slightly ahead of average on several metrics**

**Q** Has your organisation done any of the following, or is it planning to?



**Has your organisation done any of the following, or is it planning to?**

This could be down to the fact that 43% of the real estate firms questioned are listed on a stock exchange, compared to 39% of the total firms surveyed. Listed companies are more likely to be focused on shareholder concerns and financial considerations will be paramount. Another reason why this sector has been slower to move.



# 5. Younger people drive change

We know that younger customers understand these emerging issues well, and they will sit in the boardrooms of tomorrow. Therefore, failure to act now sets up problems for the future.

The Millennial group, the eldest of whom turned 40 in 2021, are actively investigating, and investing, responsibly. Morgan Stanley has tracked the attitudes of investors for many years, and in 2021 found 99% of Millennials want to invest responsibly<sup>9</sup>, an all-time high figure.

This explains why talent is at a premium for real estate firms, as described above.

We know that General Counsel tends to take a lead role for ESG in real estate firms. This may offer a clue to why ESG has not been as embedded in the real estate sector, with close to half (48%) taking a lead role, compared to 43% on average.



## Which of these statements most closely applies to your business?

The prominence of General Counsel in ESG matters shows the problem – they most likely have other concerns to deal with. The sector needs dedicated ESG talent.

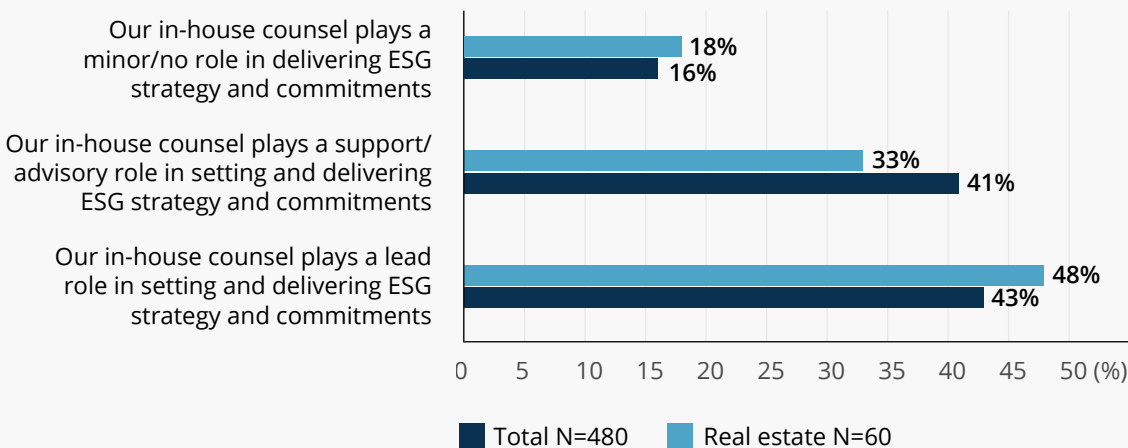
When looking at how real estate firms report their ESG performance we see further evidence of the disconnect between confidence and performance.

Most significantly, 62% agree with the statement 'We limit our disclosures to those we believe will not create any legal issues', compared to 47% of all businesses surveyed, a 15% variance.

This shows real estate firms actively suppress their disclosures to those areas with which they have confidence. That 53% agree with the statement, "We are confident our due diligence relating to our financial investments is comprehensive" underlines that a greater proportion of those in this sector are listed on stock exchanges.

### Real estate firms tend to rely on General Counsel

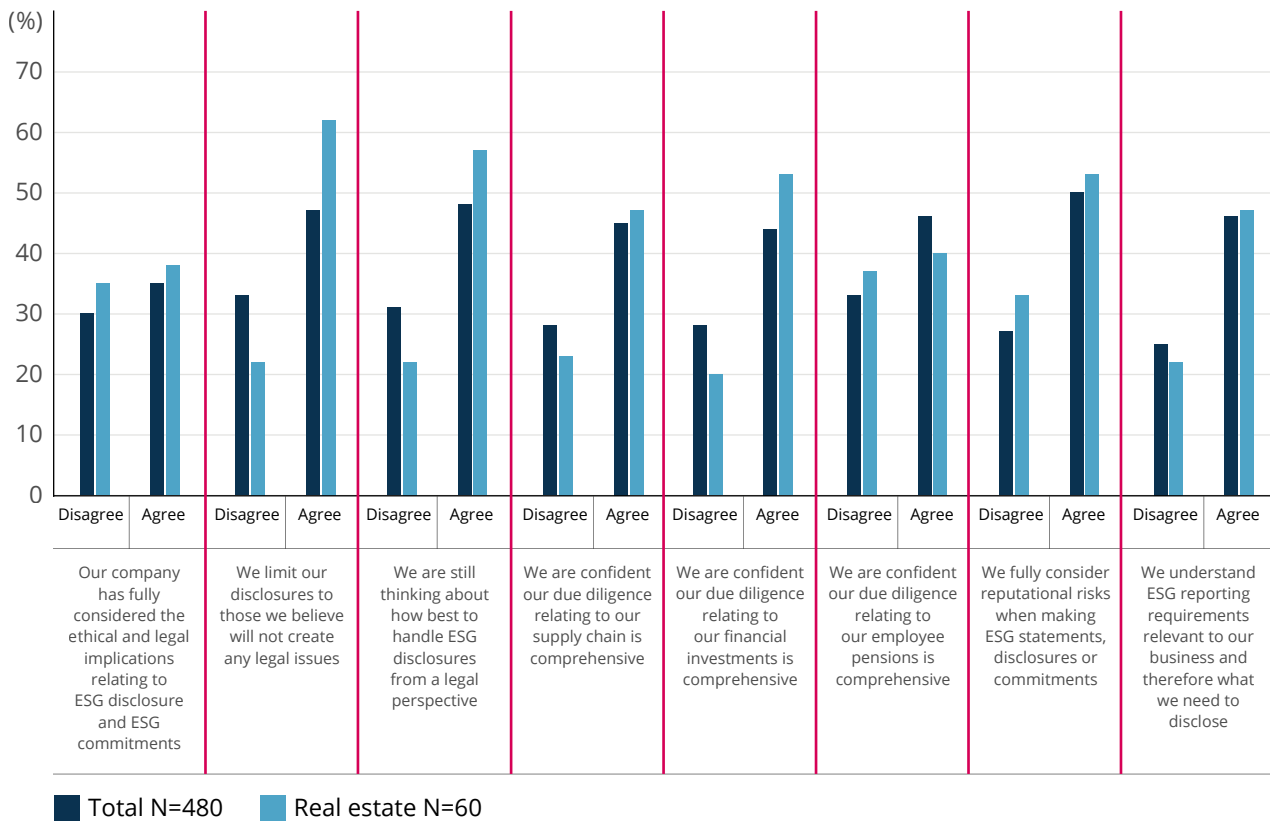
Q Which of these statements most closely applies to your business?





**Real estate ESG legal disclosures are far from settled**

**Q** Indicate the extent to which you agree with the following statements:



**Driven from the top.**

According to Jayne Black, Strategic Procurement Programme Lead at Homes England, the government agency responsible for increasing the number of new homes built in England, sustainability is becoming an integral part of its investment decisions.

*“It’s not just about measuring carbon or EPC ratings. From an environmental perspective you need to be looking at things like water management, waste management, resource usage, biodiversity and so forth. And there are wider social value considerations, such as job creation, tackling workforce inequality, improving health and wellbeing and community*

*integration. All of these are high on the Government’s agenda and we are increasingly expecting our investment partners to report on how they are addressing these issues,” she says.*

In addition, banks are already offering incentives for more sustainable buildings. *“Housebuilders have got preferential rates because they’re able to evidence the social and or environmental impact of how they’re using the funds,” she explains.* This shows that the market, at least in the UK, is primed for more sustainable new build.

## 6. Conclusion

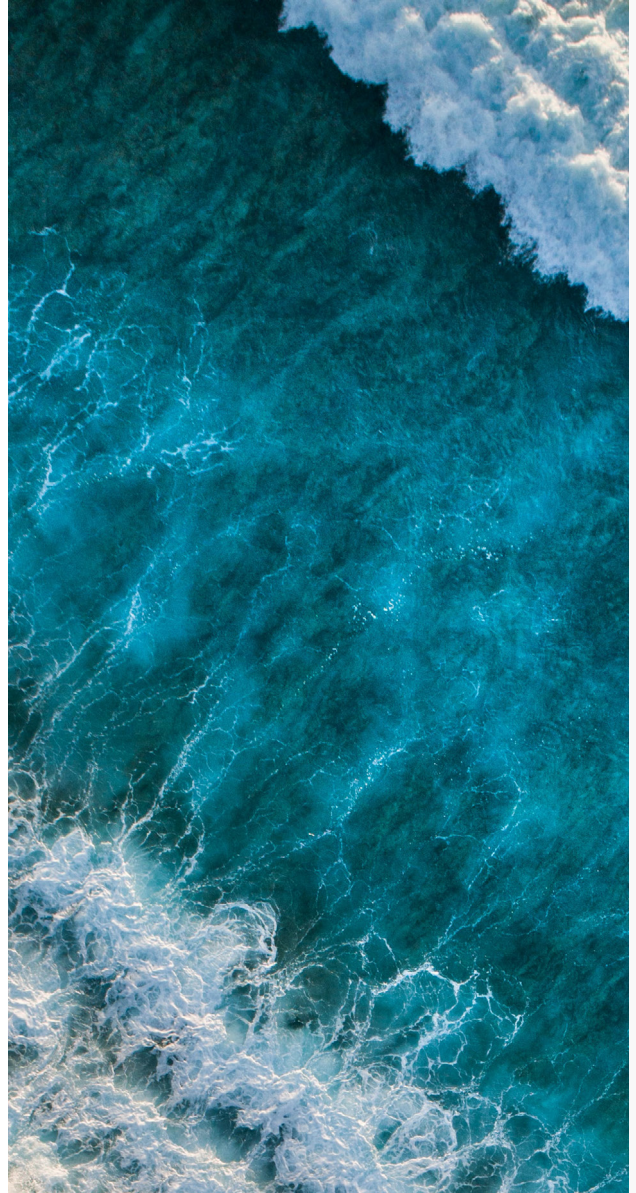
ESG is a relatively new concept, bringing business endeavours that would previously have been part of Human Resources and Corporate Social Responsibility together, linking them with evolving governmental targets, simple business best practice, and customer expectations all under one roof.

Overall, businesses in all sectors have made efforts to adjust to this new reality, where the environment and social factors are taken seriously at the top table.

ESG is particularly important for the real estate sector because so much of global carbon emissions are tied into our built environment. Reductions in carbon emissions here could have significant overall impact.

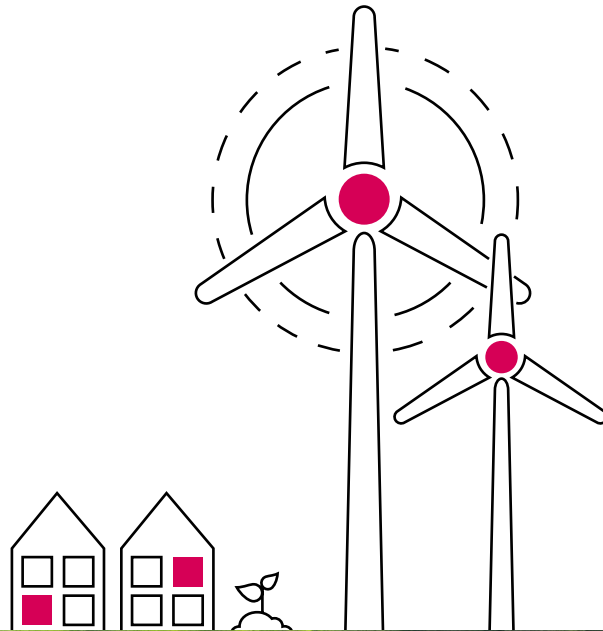
Businesses and consumers understand this move to more ethical behaviour well, which is why this is such a golden opportunity for the real estate sector, to find smart new ways to drive down carbon emissions and give tenants what they want. The sector has tentatively explored options, and to a greater degree than in other sectors, but they have not been fully embraced, something needed to advance a more sustainable agenda.

Those real estate businesses that act now will find they are well placed to take advantage of a wide and deepening interest in ESG issues, satisfying their shareholders and other stakeholders, and ensuring they remain attractive to investors, talent and clients.



## 7. Methodology

Field research conducted in July 2021, included responses from 75 senior real estate executives from around the world.



## 8. How we can help

**DWF is a leading global provider of integrated legal and business services.**

Our Purpose is to deliver positive outcomes with our colleagues, clients and communities and we believe our ESG strategy, combined with our operating structure and vision help to achieve this purpose.

As the only Main Market listed business in our sector, we understand the increased stakeholder

interest in how companies operate, where and with whom they do business, and the level of transparency, disclosure, and often scrutiny that comes with integrating Environmental, Social & Governance (ESG).

Our Real Estate sector group comprises more than 200 multi-disciplinary lawyers across the world and our strength lies in our ability to see the bigger picture. This means we can advise on all aspects of the built environment, as well as understanding the key issues that are influencing business strategy and ethos.

## 9. Our team

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