

A sustainable future for commercial real estate

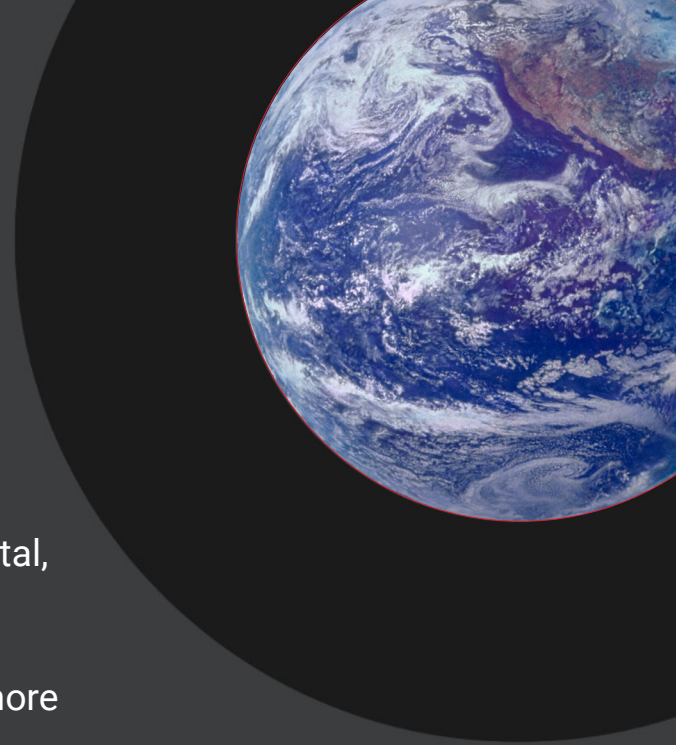
Executive Summary

Commercial real estate must become more sustainable if it is to reduce its impact on the environment and remain a credible investment option.

Research from Deepki, the real estate ESG data intelligence firm, finds that enhancing environmental, social and governance (ESG) credentials is paramount to investors, and that the sector must urgently overcome barriers to demonstrate and, more importantly, achieve improved sustainability.

Headline Findings

- 90% of UK institutional commercial real estate investors and property professionals say that ESG credentials are important in the investment decision-making process
- Three-quarters predict that the importance of the ESG credentials of UK commercial property to investors will increase over the next 12 months
- Three-quarters say the Coronavirus pandemic has increased the focus on ESG in commercial real estate
- The majority of respondents expect that improving ESG compliance will increase capital value and rental revenues
- Just under three-quarters (73%) of UK institutional real estate investors and property professionals expect buyers to avoid commercial real estate with poor ESG performance
- Three-quarters (75%) say they are looking to sell commercial real estate assets with poor ESG credentials
- Four-fifths of respondents cite the complexity and scale of policies required to improve ESG compliance as the main barrier
- More than half (58%) say the lack of consistency of reporting across different real estate assets is a problem
- Two-thirds say the World Green Building Council Net Zero Carbon Buildings Commitment for all buildings to achieve net zero carbon by 2050 is realistic and achievable



Introduction

The 2021 IPCC report on climate change found that the planet is continuing to warm at an alarming rate. In fact, the research states that “unless there are immediate, rapid and large-scale reductions in greenhouse gas emissions, limiting warming to close to 1.5°C or even 2°C will be beyond reach”. This figure itself is called into question by a new report by Climate Action Tracker, released during COP26, which predicts a temperature increase of over 2.4°C by the end of the century.

Given that the built environment is responsible for 40% of the world’s total greenhouse gas emissions, it is imperative that steps are taken to make properties more sustainable.

Improving sustainability in the commercial real estate sector is not only an environmental priority, but a necessity for investors looking to avoid financial penalties and increase the value of their assets.

The COP26 Climate Change summit has reinforced the need for investors and property professionals to disclose their ESG credentials, with proposed Treasury rules requiring large UK firms and financial institutions to disclose their strategies for reducing their carbon emissions in order to meet the country’s target of reaching net zero by 2050.

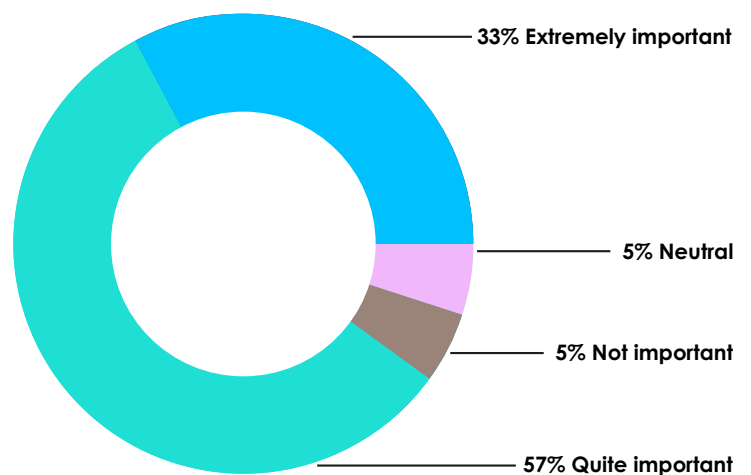
In this report we analyse the responses of 100 UK real estate investors and property professionals to better understand their views on the importance of ESG to the sector and the barriers that must be overcome.

The commercial imperative

One third of the investors and property professionals surveyed by Deepki say that the ESG credentials of property assets are extremely important in the investment decision-making process.

A further 57% say they are quite important and just 5% say they are neutral, with the same number believing they are not important. Respondents also expect that importance to increase.

How important are the ESG credentials of properties when investing in UK commercial real estate?

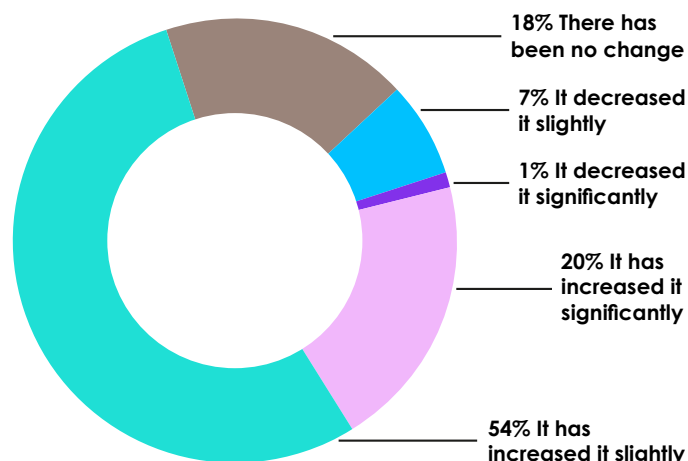


Almost three-quarters (74%) predict that the importance of ESG credentials to UK commercial property investors will gain prominence over the next 12 months. That number increases to 81% when looking to the next three years.

The survey respondents consider demonstrable ESG credentials to have a positive impact on capital value and rentals. Thirty percent expect capital value and rental revenues to increase by 31-40% by improving ESG compliance, a further 19% predict an increase of 41-50%, and 13% expect values to increase by 21-30%, highlighting the growing influence of ESG on the financial performance of UK commercial real estate assets.

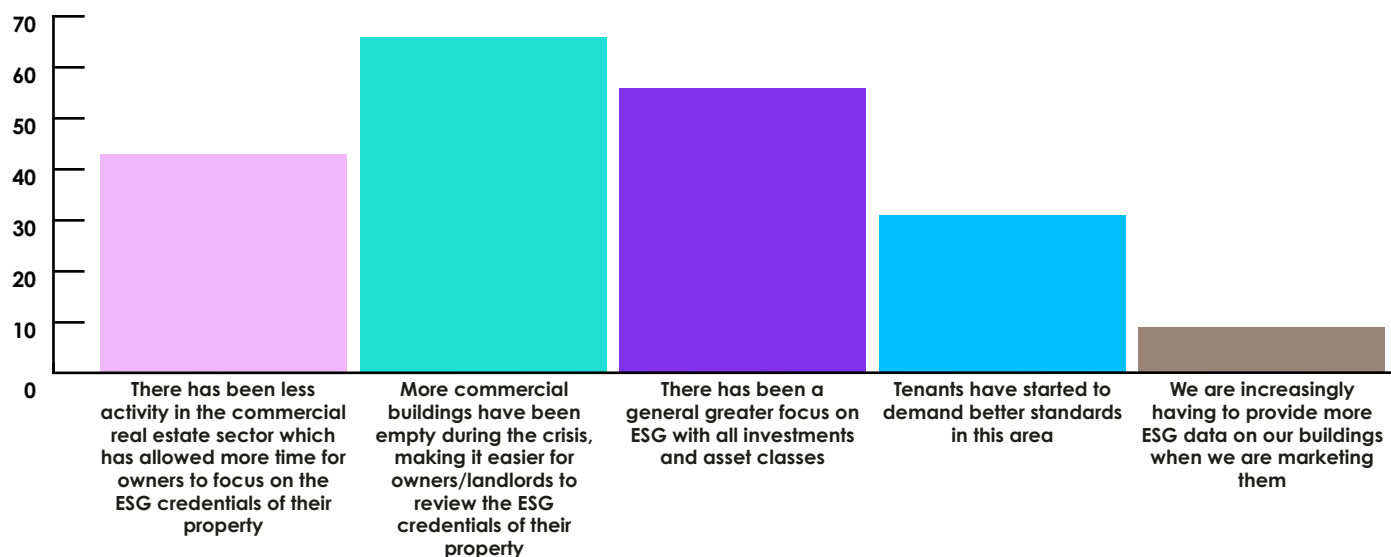
The research also reveals that ESG is having a direct impact on the ability to sell UK commercial real estate sector assets. Investors and buyers are willing to walk away from deals where the ESG credentials are not good enough. Nearly three-quarters (73%) of survey respondents expect more commercial property and buyers to abandon commercial real estate with poor ESG performance.

How has the Covid pandemic changed the focus on ESG in commercial real estate?



It is clear from the survey that the Covid-19 pandemic has accelerated investor focus on ESG in commercial real estate. Just under three-quarters (74%) of investors and property professionals said that the pandemic turned investors' attention to sustainability, with 60% saying it was easier to review ESG performance while properties were empty during lockdown.

If the crisis has increased the focus of commercial real estate investors on ESG when it comes to their real estate portfolios and investment strategies, why do you think this has happened?



Barriers to sustainable real estate

The IPCC report states that despite increasing environmental legislation in the real estate sector over the past five years, global CO₂ emissions resulting from energy use in buildings have increased at an average rate of 2.7% per year in the past five years.

The report adds: “The substantial barriers that need to be overcome and the relatively slow pace of policies and programmes for energy efficiency will provide major challenges to rapid achievement of low-emission buildings.”

Respondents to the Deepki survey reveal where they believe challenges lie in improving sustainability.

- Nearly two-fifths (79%) of respondents cite the complexity and scale of policies required to improve ESG compliance as the main barrier
- More than half (58%) blame the lack of consistency of reporting across different real estate assets
- Over half (58%) say poor understanding of retrofitting older properties to improve ESG compliance remains an issue
- 55% claim that lack of knowledge when it comes to real estate ESG in general is still a barrier



Investors and property professionals need more comprehensive data on the real estate sector, which can be supported by in-depth analytics that will enable them to assess risks and opportunities.

The future

As more policymakers turn their attention to the commercial real estate sector in particular and the built environment in general, the survey shows investors and property professionals expect significant ESG advances will be made.

- More than half (52%) of respondents said COP26 would mean an even greater focus on ESG across the property life cycle, from design to occupancy
- More than two-fifths (44%) thought that the summit would encourage even more real estate asset owners to address the poor performance and carbon footprint of their buildings with comprehensive environmental strategies
- A further 42% expect more older buildings to be retrofitted to improve their carbon footprint, rather than being demolished
- 40% anticipate even tighter regulations on new build properties to ensure the best environmental performance

Encouragingly, just under two-thirds (64%) say the World Green Building Council Net Zero Carbon Buildings Commitment for all buildings to achieve net zero carbon by 2050 is realistic and achievable.

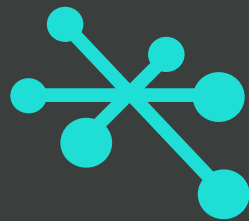
It is clear the commercial real estate sector is under pressure to improve its sustainability but there is evidence that key stakeholders are rising to the challenge.

The next few years will be critical in breaking down barriers to greater ESG advances and it is incumbent on policymakers, the industry, and investors to ensure progress is made.



Methodology

The research was conducted by Pureprofile with 100 institutional commercial real estate investors and commercial real estate professionals in October 2021.





A successful first GRESB submission for Swiss Life's French assets



The Problem

When it contacted Deepki, Swiss Life had three goals:

1. To successfully submit its French assets for the GRESB Real Estate assessment
2. To implement a new tool to achieve continuous improvement and track the evolution of its scores in anticipation of upcoming submissions
3. To be awarded at least two out of five stars by GRESB

The Results

- **Over 75%** of energy and water data collected for all assets
- **Data formatted** and submitted directly to the GRESB platform
- **100% of evidence** provided accepted by GRESB

Client Swiss Life Asset Managers

Location France

Sector Portfolio Management Company

Skills #Data collection
#Environmental Performance
#ESG

26/30

Average management score for all French funds

35/70

Average performance score for all French funds

50%+

Time saved on the submission process

2/5

Average score given by GRESB

The Solutions



Collecting quantitative and qualitative data

Providing forms for collecting:

- **Quantitative data**, e.g. electricity, gas and water consumption over the course of a year
- **Qualitative data**, e.g. ESG (environmental, social and governance) goals and pledges, certifications gained, renovation, etc.
- **Obtaining an overall vision** across all funds and at asset level on the Deepki Ready platform



Data reliability

- **Checking data** for errors, inconsistencies, etc.
- **Checking completeness** to ensure there are no gaps in data
- **Alerting property managers to detected anomalies**, handling recovery of missing data, e.g. missing meters



Support and organisation during the process

- **Advice and support** in collecting evidence for qualitative questions e.g. choosing the relevant evidence, contextualising it, recommending formats, translation, etc.
- **Bi-monthly meetings** with an ESG analyst to track the progression of qualitative and quantitative data collection
- **Monthly meetings** with all stakeholders to centralise and oversee the project



Providing actionable recommendations

Recommending short-term and long-term pathways for improvement following the GRESB assessment:

- Implementation of a tenant satisfaction questionnaire
- Measuring waste emissions
- Energy audits
- Obtaining new certifications, etc.



I am very satisfied with the support Deepki offered. The GRESB response project unfolded smoothly without any delays and the teams are experts and pleasant.



Cyrille HERISSON

Head of Real Estate Fund & Portfolio Management France

About Deepki

Back in 2014, Vincent Bryant and Emmanuel Blanchet saw early that real estate was late in climate protection. Today, leading international companies and institutions turn to Deepki to improve their environmental performance at scale.



We believe that virtuous real estate is the way forward

Today, Deepki is active in 38+ countries, with offices in Milan, Madrid, London and Berlin, and trusted by organisations such as Generali, Allianz and JLL, as well as the French government.