



The real estate sector still has a long way to go in its efforts to fully adopt sustainability criteria. Meanwhile, pressure from the community, investors and policy makers continues to grow. Source: Pixabay, Copyright: Free-Photos

ESG keeps property developers and fund managers on their toes

by Lars Wiederhold

ESG does not stop at fund managers like Hansainvest or property developers like ASSIDUUS. Concerns around sustainability and ESG criteria have become relevant for many market participants in the real estate sector. We are seeing increasing pressure from both the European Union and directly from the investment side.

“ESG (environmental, social, governance) criteria are quickly gaining momentum in the real estate sector,” Robert-Christian Gierth, Executive Director and Partner at Berlin-based property developer ASSIDUUS, recently stated at a Heuer Dialog digital-talk event. The days when sustainability was merely a marketing tool are over. Today, sustainability plays an important role in property development, acquisition and management. “Pressure from the community for more sustainable construction practices is growing,” confirmed Alexander Happ, Executive Director and Partner at ASSIDUUS. Policy makers, for example, are responding to this pressure by introducing new hurdles in building permit procedures.

“Companies today need to consider ESG criteria in their investments. It’s no longer something you simply choose to do,” Robert-Christian Gierth emphasized. The next generation of investors will be more environmentally aware and will be looking to invest in products that meet their standards. “Society will not have much patience with companies that try to resist this trend going forward, which could make it difficult for those companies to do business,” commented Alexander Happ.

ASSIDUUS is very serious about its own commitment to ESG. The property developer is concerned with the question of how to reduce a building's carbon footprint, both in terms of energy and building materials. "Around 8% of global carbon emissions are generated by the production of concrete," explained Robert-Christian Gierth. That's why it is so important to use alternative building materials like wood or eco-concrete and to generally put more effort into recycling construction materials. It is also important that focus be placed on updating and redeveloping urban areas instead of going out and paving rural areas outside the cities. Social criteria are another important aspect. "When you develop a property, you need to work towards anti-gentrification," commented Alexander Happ. Offering some of units at reduced rents is one way to move towards this goal. Developers should also consider the needs of the neighborhood in which their property is located, e.g. by including additional types of use like daycare facilities. "The point shouldn't be to have the best concept but to have a that concept fits the location. After all, properties are places within a city," added Alexander Happ. In his opinion, 80% of the private sector should structure their activities towards benefiting the community. "Not to be confused with non-profit activities."

When it comes to governance, ASSIDUUS places importance on acting transparently and not operating via Luxembourg vehicles, but to instead pay taxes in Germany. Robert-Christian Gierth is convinced that greater commitment to ESG does not necessarily mean less profit. "Not only does it boost ethical return but real return as well." For that reason the company is planning to launch funds with a focus on sustainability through its own capital management company following approval by the German Federal Financial Supervisory Authority, BaFin. Capital management companies like Hansainvest are already feeling the impact of ESG on their fund business. The company has created a team of experts dedicated to ESG, which meets on a weekly basis. Ludger Wibbeke, Managing Director of Hansainvest also spoke at the digital-talk event saying that Hansainvest's parent company, German insurer Signal Iduna, promotes ESG topics throughout the entire group. His colleague Stefanie Kruse, Head of Compliance, AML & Sustainability at Hansainvest, made reference to the additional regulatory requirements, especially from the European Union, with which asset managers will be required to comply. The EU is trying to direct investor money towards sustainability by way of a large-scale action plan. For example, financial advisors will soon be required to ask their clients whether they want to invest in ESG products, and asset managers will have to disclose how sustainable their investments are. "We will likely need to adjust our investment documents three times within two years," Stefanie Kruse estimated. Companies will have to submit a plan for compliance with sustainability criteria by March next year, and, as of December 2022, any detrimental effects of a portfolio on ESG criteria will need to be indicated. Warning notifications for non-sustainable products are also going to be introduced. "There will be no way to ignore ESG going forward," Stefanie Kruse summarized.

According to the EU's climate protection plan, new-builds will have to be climate neutral by 2030 as will all stock properties by 2050. Hansainvest believes that an excellent building database is going to be essential when it comes to tackling these goals. "The better the available data, the better we will be able to see how a property is improving and how it compares to the overall portfolio," Stefanie Kruse explained. In many cases property owners do not have access to all of the data, e.g. because these data relate to tenants. Examples include contracts signed for electricity and waste recycling services. Green leases binding the parties to act in compliance with ESG criteria may prove a viable solution. Landlords going forward are going to face the difficult decision as to whether to lease to tenants that are not in compliance with ESG criteria or to instead leave space at their properties vacant.

Ludger Wibbeke stressed the importance of every service provider involved. Ultimately, institutional investors will only be able to score high on sustainability if everyone works together and contributes to a shared database. If there is one insight that we can take away from this discussion, it's this: ESG criteria are going to keep property developers, asset managers and other real estate service providers on their toes.

Fund investment documents will need to be adjusted several times.