

ESG and How it Influences Commercial Real Estate

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ESG stands for Environmental, Social and Governance and refers to the three key factors when measuring the sustainability and ethical impact of an investment in a business or company, as defined by Market Business News. Most socially responsible investors evaluate companies using ESG criteria to screen investments.

Environmental responsibility is commonplace with the way we live our lives today. If we ignore it, we ignore the continued trajectory of a future with depletions of natural resources, growing CO2 emissions and extreme climate fluctuations—wildfires, floods and hurricanes and the reality we’re currently living in...a pandemic. These all have a devastating impact beyond real estate.

There are multiple programs promoting environmentally responsible development from the LEED and WELL certification systems (www.usgbc.org) to the International Living Future Institute (www.living-future.org). Buildings account for an estimated 39% of total U.S. energy consumption, and transitioning these spaces to be more sustainable is key to climate action. New Resiliency programs are also coming into the market, such as the U.S. Resiliency Council (www.usrc.org) recognizing the devastating impacts that can be caused by catastrophic events such as earthquakes, hurricanes, and floods. These programs provide a pathway to develop projects with sensitivities towards low impact development and reduction of natural resources, while creating healthy, productive environments for its occupants.

The metrics for LEED certifications are still low; of the thousands of projects being developed, less than 10% are certified. The USGBC publishes Myth Busting on the costs associated with LEED which highlights the costs associated with certification and increased building costs, which are minimal compared to the potential increase in value for profitability in terms of rent. The other challenge to consider is existing assets, which do not necessarily provide the optimal environments for occupants. Awareness and commitment to move towards environmental accountability is the first step towards responsible real estate portfolios and development.

The **Social** aspect of real estate development is particularly prevalent in communities that are under-served, evident of social disparities and in need of an insurgence of funding and attention. Programs have been developed that promote incentives for development in under-served communities, including Opportunity Zones. This program provides for tax credits in QOZ (Qualified Opportunity Zones) creating financing benefits for development. This is a start. Real estate has the power to create resilient communities. Beyond incentives, the commitment to the social

aspect of development, closely connected with the concepts of diversity, equity, and inclusion, will lead the way towards the creation of parity in all communities.

Governance in this realm can be defined as the incentive and model to push responsible development forward, supporting Environmental and Social goals. U.S. President Joe Biden recently signed an executive order around greening the federal government’s own footprint, which includes its buildings. During his campaign, then candidate Biden also committed to upgrade four million buildings in four years as part of a sustainable infrastructure and clean energy plan. These are added steps in the right direction.

The blended focus on Environmental, Social and Governance allows for a holistic approach towards a sustainable future. ESG criteria are a set of standards for a company’s operations that investors are increasingly using to screen potential investments. A study by the United Nations revealed 93% of investors now include ESG in decision making. There are major developers that promote their ESG responsibilities by maintaining a portfolio focused on reduced carbon footprint, thereby creating a positive outlook for the future. Global real estate leaders, developers and owners are now exemplifying their focus on ESG within their portfolio and operations, including CBRE, JLL and Walmart.

PERE’s recent issue of Global Investor 100 clearly delineates ESG as one of the top priorities in its ranking, with not only integration of sustainable features, but also a focus on Zero Net Energy.

The discussion on ESG is quickly evolving; evidence that we all need to pay attention to this topic. Integration of responsible, sustainable development is necessary for the communities we live in and is our path towards creating a more sustainable future. Resources for in-depth discussions at a government level and ESG models within private industry:

- www.un.org/sustainabledevelopment
- www.sec.gov/news/speech/lee-climate-change
- www.unpri.org/sustainability-issues/climate-change
- <https://www.usgbc.org/articles/leed-works-myth-busting>
- <https://www.usgbc.org/articles/usgbc-applauds-biden-administration-s-commitment-green-federal-infrastructure>
- <https://www.cbre.us/united%20kingdom/services/business-lines/building-consultancy/build-insight/articles/esg-investing-and-operational-real-estate>
- <https://www.us.jll.com/en/about-jll/our-sustainability-leadership>
- <https://corporate.walmart.com/esgreport>
- <https://www.perenews.com/global-investor-100/>