

What is ESG and how does it fit in with the property market?

Education

12.01.23



Environmental, Social and Governance (ESG) is a collective set of standards that businesses use to measure their impact on society and the environment, and also to show how transparent and accountable their business is.

To understand ESG and how it fits within the property market, each individual pillar needs to be examined.

Environmental

The "environmental" aspect is how the company improves its environmental policies, how it finds solutions to combat environmental concerns and limits any future environmental issues. The threat

of climate change and depletion of resources has led many consumers to factor in how environmentally sustainable companies are when making certain choices. The variety of environmental concerns is vast, from greenhouse gas emissions to biodiversity, waste management, water management, and energy efficiency. Cutting emissions, combating global warming and decarbonising are important. If we take a building's energy efficiency as just one example of an environmental aspect, we can examine changes in policies and practices that can be put in place.

With nearly [40% of all greenhouse gas emissions worldwide being attributed to buildings](#), it is imperative that those within the property market are aware of this impact and take measures to reduce those emissions where possible. A property's energy efficiency and emissions are now rated against a variety of scales and standards, such as Energy Performance Certificates (EPC) or BREEAM - Building Research Establishment Environmental Assessment Method. For a business to be more environmentally friendly, these standards should be considered before a building or development begins. In fact, the UK Government has proposed the enforcement of an [EPC rating of B for privately rented non-domestic buildings by 2030](#). There is likely to be further regulatory requirements put in place going forward.

Another part of the environmental aspect includes sustainability. The materials used to build or develop properties can be sustainable, meaning they do not deplete natural and non-renewable resources, and they have no adverse impact on the environment when used. Although these objectives may not be totally obtainable in practice, natural materials can be preserved by using less, or using reclaimed instead of new materials. The impact on the environment can also be mitigated by reducing the transportation needed to obtain the materials and ensuring these materials do not end up in a landfill. Timber is considered a viable alternative. Whereas an average steel and concrete building emits 1,000 - 2,000 metric tonnes of carbon dioxide during construction, a timber building will eliminate emissions by [sequestering 2,000 - 4,000 tonnes of carbon dioxide](#). Using timber can also reduce construction time. One example is Stadthaus in London, a nine-storey residential property in London, where the use of timber [reduced construction costs by an estimated 15% and shortened construction time by six months](#).

Social

Social is what the company does to improve their social impact both within the company, the local community, and wider community. Social factors include everything from human rights, labour standards in the supply chain, animal welfare, any exposure to illegal child labour to LGBTQ+ equality, racial diversity in the executive suite and staff overall as well as inclusion programs and hiring practices. It looks at how a company advocates for social improvement in the local community, beyond its own industry and even the wider world.

When considering the social aspect of ESG within the property market, this is reflected in how the building will impact society. The focus here is not just on the tenants, but the local community also. Will it support local enterprises, such as cafes and shops, is there access to public green spaces, is the property accessible, for example, does it have step-free access? These questions must be taken into account when considering the social impact of a property.

General wellness and health and safety considerations are also part of the social section of ESG. The recent pandemic has meant that hygiene and cleanliness have become more important, meaning more efforts are made to promote cleaning and sanitisation, especially in shared areas. The International [WELL Building Institutes' \(IWBI\) Well Building Standard](#) is the premier standard for buildings, interior spaces and communities that are looking to implement and measure features that support human health and wellness. This consists of over 100 features over multiple areas such as water, air, light or thermal comfort.

The type of building itself can also fall into ESG considerations. Community centres, for example, are specifically designed to add value to and support a local community, and this would be an ESG building. The same can be said for social housing specifically to help vulnerable adults.

Governance

Governance is the way the company's management team advocates for positive change.

Governance can include everything from diversity in leadership, equal pay and accounting transparency to how it governs the way it interacts with stakeholders and the industry as well as audits and internal controls and policies. This has been developed from Corporate Social Responsibility (CSR).

When looking at governance within the property market, it is applicable to the property owner, management companies and other on-site staff as well as tenants. Strong and clear governance means a firm code of ethics and transparency, and encourages companies to promote diversity and inclusion, uphold cultural values and take care of their reputation. The behaviour and decisions of all of those in the property industry should be informed by their governance standards. Governance should also be used to guide policies such as vendor selection and treatment, and be used to prioritise the wellbeing of employees. Companies with a robust ethical and social platform have strengthened operational resilience and are better positioned to withstand crises such as economic volatility.

It has already become important to bring ESG considerations into all areas of the property market. With increased public and political pressure, companies, their products and services, and their workforce will be regulated and measured against these standards and will be required to prove how they conduct themselves against ESG standards. It is likely that new requirements will continue to be introduced, for example, in November 2021, the Department for Transport confirmed that new buildings in England will be obligated to install charging points for electric vehicles.

With the growing and changing regulations, it is imperative that all entities in the property market examine their own ESG offerings. Not only will this keep them compliant to the necessary regulations that are in place, but it is also an important way to demonstrate that they are doing 'the right thing' as a company, employer, and service provider. Additionally, to be able to prove that they are up to date with what is required, and maybe even going a step further, arguably makes them more marketable and preferable than those who are offering the bare minimum. Society expects more, and the property market needs to adapt.

Capital is at risk. Property values can go down as well as up. Borrowers may default and investments may not perform as expected. Interest and income are not guaranteed. Returns may vary. You should not invest more than you can afford to lose. TAB is not authorised by the Financial Conduct Authority. Investments are not regulated and you will have no access to the Financial Services Compensation Scheme (FSCS) or the Financial Ombudsman Service (FOS). Past performance and forecasts are not reliable indicators of future results and should not be relied on. Forecasts are based on TAB's own internal calculations and opinions and may change. Investments are illiquid. Once invested, you are committed for the full term. Tax treatment depends on individual circumstances and may change.

You are advised to obtain appropriate tax or investment advice where necessary. Understand more about the key risks [here](#).

TAB is a trading name of TAB London Limited. Registered in England and Wales with registration number: 11225821 and whose registered office is at 101 New Cavendish Street, London W1W 6XH.