Building a sustainable future with ESG products

ESG investment has expanded exponentially in recent years, with governments across the world establishing over 500 new measures to promote environmental, social and governance issues over the last decade[1]. Rather than a buzzword, ESG investment now requires the setting of clear targets and proof that it is actually making a difference. These growing commitments are changing how we not only imagine buildings and their impact but their environment and the needs of those inside them. Here Nehla Krir, Head of Sustainability and CSR at BNP Paribas REIM talks about just why these types of investment are so crucial for the real estate industry and the places we work and live in.

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The number of Environmental Social and Governance (ESG) investment funds have grown substantially of late, bolstered by a greater environmental consciousness and a firm desire to make positive change to better protect the future of our world. The Paris Agreement is one significant example, which has united countries across the whole world, with each participant committing to strengthening their climate actions every five years and achieving net zero emissions by 2050. This global commitment is making waves across each industry, and the real estate sector is by no means an exception.

Significantly, private and institutional investors are demonstrating an increased demand for ESG products. Institutional investors for example are looking to meet criteria from their own clients, who are seeking responsible investment, across all sectors. We are now able to offer this type of investment in the real estate sector across different asset classes and not just for financial products. We believe, like our investors, that such investment will mitigate future risks, linked to the climate or new regulations and protect against the obsolescence of buildings, making them attractive and desirable on a long-term and ever-changing basis. Take for example the idea of a shopping centre, whereas now we might be seeing that these real estate assets are less coveted, how can we repurpose the space and turn it into something that fits with the current climate? The idea must not be to demolish the existing stock we have but to make small but significant changes to make it accessible and enticing.

Indeed, what has been particularly important in recent times in the real estate industry is the significant move away from greenwashing. Over the last 10 years or so there were many products and funds on the market that claimed to have an ESG approach, but on closer inspection had few concrete objectives linked to environmental and social impact. The EU’s Disclosure Regulation which will come into place in March 2021 will dramatically change the standard of ESG funds on the market, by setting criteria that ESG funds must abide by. An ESG fund must therefore legally commit to at least one defined environmental objective such as climate change mitigation, promoting the circular economy, protecting biodiversity or reducing pollution. We will therefore see a significant move away from greenwashing and funds that were used as marketing campaigns, as those across the industry commit to binding ESG processes and formal commitments.

Incorporating ESG criteria into our portfolio

At BNP Paribas REIM, we have been working to incorporate ESG criteria more and more into our investment decisions, as we recognise that investors are calling for investment that is able to contribute to the growing concerns across the world linked to Greenhouse Gas (GhG) emissions, energy and water consumption, biodiversity and accessibility for everyone. We have seen growing pressure from both global organisations and those in the real estate industry to provide a portfolio of funds and assets that meet ESG criteria. To do this, when BNP Paribas REIM evaluates an asset for acquisition, it is done so against an in-house ESG grid, which looks at its environmental and social performance and how it can be improved. This means providing investors with key indicators about the ESG performance of each asset.

In this way, our offer of investment products is undergoing a shift, as we move increasingly towards responsible products of differing categories such as green buildings, buildings focused on environmental performance and socially responsible assets. An example of this is our European Impact Property Fund (EIPF) which is the first European investment fund aligned with the objectives of the 2015 Paris Agreement, which has set out to reduce global GhG emissions by 40%. For the fund, we decided that we must target existing real estate stock if we were to make a tangible difference to GhG emissions. We already know that the renewal rate of the top 50 office locations in Europe is just 2%, so it seemed clear to us that we must work to improve this. The real estate industry is a significant contributor to global greenhouses gases because of the impact of construction, demolition and renovation works. Creating the EIPF was, as such, a logical step for us to address this problem.

To make real change we must work collaboratively

Devising the best possible ESG system in order to ensure the proper management of real estate assets requires the input of many different parties across the sector. This means defining clear roles and responsibilities within the value chain and also for the different teams and stakeholders. For example, the Asset Manager must champion the real estate strategy of the asset which means working to limit vacancy, find the appropriate tenants depending on the building and making sure to collect the rent on time. The Fund Manager is then the person who works to ensure performance is delivered for the fund as a whole, and the Property Manager works to guarantee the entire operational efficiency of the asset. This close-knit team is built to deliver performance for the final client, the investor, who is looking to see that certain specific and tangible objectives are met over the life-cycle of an asset. At BNP Paribas REIM, when we source deals to acquire buildings, we work to define specific ESG criteria, which are then applied during asset management. Each asset sits within a category from one of our dedicated ESG funds, which has its own strategy and indicators and therefore for each asset, the team has dedicated objectives to work towards.

These objectives are naturally agreed upon by the client, the Asset Manager and the Property Manager. For each asset that we have in our portfolio, a long-term plan must be set out, with goals that have to be achieved at certain milestones, such as having to reduce GhG emissions by a given percentage by the fifth year. Depending on the asset these objectives may differ, as whilst we are trying to make as much impact as possible, the objectives must be operationally achievable and the Property Manager who manages the building day-to-day must possess the tools needed to deliver on the ESG roadmap.

Weaving technology into the process

Technology must also play an important role within how we manage environmentally conscious buildings, monitor their success and subsequently report back to our clients. Data is an essential tool to support each CSR roadmap. For every building, we must be able to collect data on the energy consumption, which allows us to monitor and track how the building is performing. To do this, we are able to collect data from the common areas of the building and as we work on a more collaborative approach with our tenants, we are striving to collect data from private areas, which will be provided by tenants. In France, BNP Paribas REIM recently carried out a tenant questionnaire to find out what their priorities and desires were for their buildings. This revealed the need for such services as dedicated space for waste sorting or bicycle parking for example. It is this kind of qualitative data which we must combine with quantitative data in order to meet the range of targets that we set for each building, for both the environmental impact of a building and the tenants' comfort and overall satisfaction levels.

Whilst Property Managers collect data on a monthly or quarterly basis, at an asset management level, we collect and review such data on a yearly basis. This allows us to observe how each asset is performing and what changes or tweaks we might have to make, but also to carry out a benchmark on other assets within a specific fund and observe, how as a whole the fund is performing.

As PropTech becomes more present and various start-ups work on new tools, we hope to see a more seamless integration of technology and data collection built into buildings, without disturbing the tenant experience. This will go further in allowing us to make improvements to a building and also enhance tenant comfort and reimagine space in a way that best serves those inside the building.

The digitalisation of the real estate industry does not only apply to how we collect data on each of our assets but also how we communicate and interact with investors. Being able to promote funds that could be of interest to them is something which can be aided by greater digital tools, helping to more easily promote our own expertise. Client servicing can still be greatly built upon by the help of further innovation in what we do. This will also help us to further predict what investors are expecting, allowing us to pre-empt the type of products they may be looking for.

Building the city of tomorrow with ESG criteria

Real estate actors have been working on ESG integration for many years now and the biggest challenges we face are how to monitor an asset's progress, what the benefits are for the tenants and how can we present this to investors. With investors now convinced by ESG products, we must provide reports which back up our convictions and this is why data is such a vital component. With regulations such as the Disclosure Regulation and commitment such as the Paris Agreement, we now have very clear goals to work towards and data is at the heart of this drive. By collecting data on the energy consumption, water supply, tenant comfort or the biodiversity of a building, we can be completely transparent with our clients and avoid greenwashing. The accreditation of the French SRI Label for BNP Paribas REIM Diversipierre, one of our retail funds is one example of our commitment to such ambitions. We have been able to demonstrate to our investors how we have met a set of clear objectives established for the 30 buildings within the fund, which have been improved on.

Over the coming years, the targets of the real estate industry are to dramatically reduce GhG emissions. This should undoubtedly be done on a citywide level with the integration of how we move around our urban metropolises and an increased reliance on the circular economy. The greater call for ESG products is one subsection of this approach, which must be integrated into how we build a more responsible future and an industry which continues to innovate in order to create change.

FOOTNOTE

1 https://home.kpmg/xx/en/home/insights/2020/02/sustainable-investing.html

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