

From headwind to tailwind



Guest comment by **Kanav Kalia**, director, Oxane Partners

Managers now accept integrating ESG considerations into their operating model is a value creation opportunity, not a compliance burden

While issues like energy efficiency and carbon footprints have been gaining strong traction in real estate, a more holistic view of ESG factors that consider health, safety, diversity, inclusion, responsible investing and governance is still in its nascency. But change is afoot.

According to a UN Principles for Responsible Investment report, real estate accounts for one-third of global emissions and consumes 40 percent of global energy. The Sustainable Real Estate Investment framework, published by UNPRI in 2016, was a key milestone that took cognizance of the critical role real estate plays and kicked off an introspection within the industry.

The shift is now evident in increasing investor due diligence and regulatory imperatives guiding the sector. In *PERE's Investor Perspectives 2021 Study*, 38 percent of investors reported that they consider a manager's ESG credentials a major part of their diligence process, up from 31 percent in 2020. Regulatory compliances, especially in the EU with the Sustainable Finance Disclosure Regulation going live in March 2021, are also nudging managers and investors toward greater transparency in integrating ESG frameworks.

Globally, investment firms are waking up to the idea that adopting and integrating ESG themes into their

businesses should not be treated as a compliance burden, but as an opportunity that is going to create more sustainable opportunities in the long run.

Technology ecosystem

To achieve the right impact, ESG considerations must be operationalized in a systematized way throughout the investment process. Technology can be that centerpiece in embedding ESG frameworks at the core of all processes. Through the right technology ecosystem, managers can ensure that ESG parameters are defined, recorded and measured at each step of the deal lifecycle – at deal screening, due diligence, underwriting, deal negotiation and ongoing monitoring, so that nothing is left to discretion and ESG considerations cannot be circumvented.

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This will enable managers to qualify and monitor their commitments objectively on everything ranging from energy consumption to waste management, resilience, health and safety, inclusion and diversity, tenants' governance, cybersecurity, data privacy and other ESG considerations, opening opportunities for real value creation.

Progress has been slow as it is difficult to identify, record and collect the right ESG data. The clarity in identifying and capturing the right data and incorporating this data across investment processes is slowly evolving over time. Currently, a technology solution enabled by managed services seems to be the best bet to resolve these data challenges and accelerate ESG integrations for managers.

Investor expectations are fast evolving beyond just due diligence questionnaires and regulatory disclosures to measuring real impact at each stage of the investment lifecycle. And managers are realizing that engraining ESG considerations and being able to objectively articulate progress on ESG commitments made during fundraising can help them differentiate themselves.

A significant opportunity lies ahead for real estate investment firms to drive a positive impact in the industry and the world as a whole by transitioning to a data-driven ESG model. ■