

UNLEASHING ESG



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The requirements of the Environmental, Social, and Governance (ESG) paradigm represent important challenges and opportunities in any business. ESG is a value driver, as investors increasingly apply these factors to identify future risks and growth prospects.

Today, many companies have ambitious goals to make their business models more ESG-oriented. Businesses are revising the sourcing and use of raw materials and natural resources, and also how they value employees, requiring commercial real estate to keep pace to attract these companies as tenants, buyers, or clients.

When business ethics are calibrated around the ESG compass, a company's activities will likely benefit more in the long-term; with the potential to increase appeal to debt investors who act sustainably, attract customers seeking environmentally conscious products and retain talent wanting ethical careers.

Unleashing ESG as a value driver is a transformative task for executive leaders, as the impact affects core business, not just real estate. Sustainable decision-making can create a long-term impact, top-line growth, talent attraction, reduced costs, and a deeper sense of trust amongst consumers, beyond just short-term profit maximization.

THE BIG PICTURE

At the recent United Nations Climate Change Conferences in Paris and Glasgow, politicians committed to implementing regulatory action and corrective measures to slow the impacts of climate change, however, climate change is not the only problem: While climate change poses a threat to the planet and the primary focus of environmental protection is to stop or impede climate change, additional environmental "E"—issues should also be considered high priority, such as transformation to a circular economy in the prevention of waste and pollution. Moreover, to

address the environmental challenges holistically, social and governance criteria must also be taken into consideration.

Regulatory measures alone are not enough: When introducing change, people may respond with reservation, alienation, or even rejection. At the first glance, enacting regulatory measures seems like a simple solution, but as demonstrated by the various climate conferences, they are difficult to implement. Legal regulations can encourage companies to make their business models more sustainable, but the tasks involved are complex, sometimes more rigorous than in corporate social responsibility programs.

WHO WILL WIN?

76 percent of consumers say they will stop buying from companies that treat the environment, employees and local communities poorly. Industry leaders are changing expectations and actively using ESG criteria to understand risk exposure in a wide variety of areas such as, but not limited to, reputation, human capital, business development, financial, legal and regulatory. 80 percent of the world's largest companies are reporting exposure to physical or market transition risks associated with climate change.

Companies that are transparent with stakeholders about ESG risks and have plans of action to address exposed areas will succeed, and those that do not will likely become less competitive in the future or will cease to exist.

New and emerging companies are setting the tone for established players, with business models designed to be sustainable from the outset. They range from producing planet-friendly clothing, shoes, and accessories to cosmetics using natural products and vegan, micro-plastic-free packaging, made of purely renewable natural substances. These sustainably focused companies have made their decision freely and are at-

tracting customers seeking environmentally conscious products. With sustainable finance in Europe, or impact investing on a global scale, the stage is set for sustainable companies to have easier access to capital, most notably in the field of ESG-compliant real estate, where competition is low and demand is steadily growing.

ESG IN REAL ESTATE

For years, "green" certified buildings and companies have been committed to social responsibility. However, more is required to meet ESG criteria, including net-zero emissions from a business and its entire supply chain.

To achieve ambitious environmental goals, such as the 1.5-degree target, the entire building sector must be revolutionized with sustainable strategies, including a drastic reduction in the consumption of raw materials and energy for buildings. Currently, 50 percent of extracted materials worldwide relate to the construction of buildings, and existing building stocks are responsible for 32 percent of global energy consumption, not including the greenhouse gases generated from the production and processing of building materials.

Fewer new buildings, more renovations and conversions of existing properties are only part of the solution. A building should be seen as urban mining or a storehouse of raw materials. Reusing materials instead of recycling or even downcycling also saves water. New technologies such as the "Digital Twin" or "Building Information Modeling" can also help support the circular economy of materials. Of course, legal framework conditions must also enable reuse.

Each player in the lifecycle of real estate can influence environmental aspects too, with options such

as installing green roofs and facades to reduce heating in downtown locations and contributing to habitat for insects, birds and small animals. Modern workplace strategies and the use of flex space also have an impact on employee carbon dioxide emissions by reducing regular commuting. An ethical decision tree is a valuable tool that companies can fully integrate at every level of decision-making, including for real estate and investments for ESG compliance.

As more decisions are made ethically, in every aspect of business life, success will be seen in share prices and beyond, contributing to a better and fairer world. ESG is a springboard for new business ideas.

DRIVING COMPETITIVE EDGE

With a growing ESG awareness among all commercial real estate market players, having a strategy in place and gradually implementing improvements across all the ESG pillars is becoming fundamental in driving competitive advantage. Close to 5,000 entities active in Poland will be required to report on non-financial matters by 2026 and, over the next four years, contractors and subcontractors of large companies operating in the EU will be required to develop ESG strategies.

ESG is gradually becoming a new measure of commercial property values. Properties featuring or implementing ESG solutions are already seeing increasingly strong demand from tenants and investors alike. A sustainable ESG strategy ensures meaningful measures, designed both to protect our environment and to build micro-locations, that provide a better employee experience and take account of workers' needs.