

THE PRACTICAL GUIDE FOR REITS

That are Looking
to Start ESG
Investing



Introduction

ESG has been making headlines. And for good reason. More than simply a passing trend or convenient fad, ESG is here to stay. Even in the midst of the COVID-19 pandemic, ESG remained top of mind. And this will accelerate as the reality of global warming becomes too real to ignore.

As a REIT, you're uniquely placed to make a real difference in your approach to ESG. While there is still some uncertainty around ESG investing, it is an opportunity that can impact everyone from stakeholders and investors to tenants and even employees. And as more and more of your stakeholders are affected by ESG factors, your ESG journey and transition to sustainability are more urgent than ever.

But for many REITS, the question remains: How does one start with ESG investing? In this whitepaper, we provide a practical guide and blueprint for REITS looking to get started.

Wait, Slow Down.

What is ESG Investing Actually?

ESG investing is also known as sustainable investing. Some are quick to dismiss ESG as mere greenwashing. This misses the point. ESG investing goes beyond risk and return. It's considered a responsible investment because the focus is on minimizing financial risk while also contributing to solving various environmental and social issues. Okay, but that doesn't really explain what ESG is.

ESG stands for Environment, Social, and Governance. It's a forward-thinking approach to investing that focuses on those three realms and how an investment can have a positive impact. ESG investing is such a big deal that even the world's biggest and most influential institutional investors (BlackRock and State Street) have an ESG agenda. So yes, ESG is a force to be reckoned with. And REITs that choose to ignore it may be missing out.

Perhaps we can thank our fellow Millennials for that: their interest in sustainable investing saw investment spike to [\\$51.1 billion in 2020](#) compared to less than \$5 billion just five years ago. Now all other generations want a piece of the pie. Dave Nadig, ETF.com, [sums this up perfectly](#): "We're in the middle of a \$30 trillion intergenerational wealth transfer from baby boomers to their children. And those kids —not really millennials only, but people from 25 to 40 years old – simply think about their investment decisions differently."

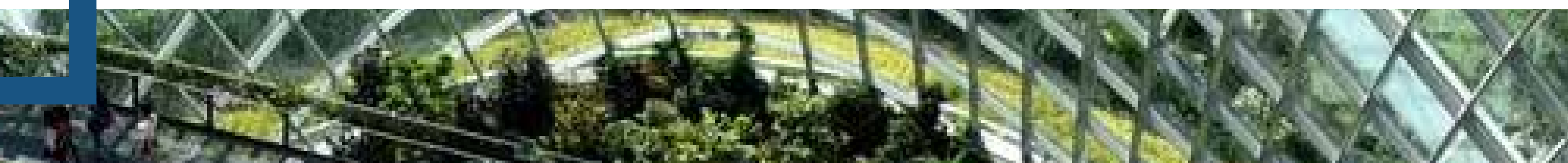
Here's Why You Should Care About ESG

While ESG is good for the planet, it's so much more than that. It's a holistic approach to investing. And there's actually a link between ESG and corporate financial performance (CFP). In other words, going all in on ESG makes good financial sense. A review of over 2,000 empirical studies found that in 90% of the studies, there was a positive ESG-CFP relationship.

We can also thank the COVID-19 pandemic for the recent interest in ESG. That's right. As disruptive and traumatic as COVID-19 is, it has forced many, from the central bank to governments, to really think about sustainability at a time when the tried and trusted systems have proven to have a limited shelf life.

The pandemic has highlighted the essential role of climate-friendly initiatives, which can pave the way toward resilience. Consider that the Biden administration has allocated \$44.9 billion in the discretionary budget to tackling the climate crisis - a yearly increase of nearly 60% from 2022. This sentiment has trickled down to other aspects of society like REITs.

Then there's the regulatory level, where we also see a major shift in favor of ESG. These include everything from mandatory regulatory disclosures to ESG-related regulations. Here's looking at you, LL97.

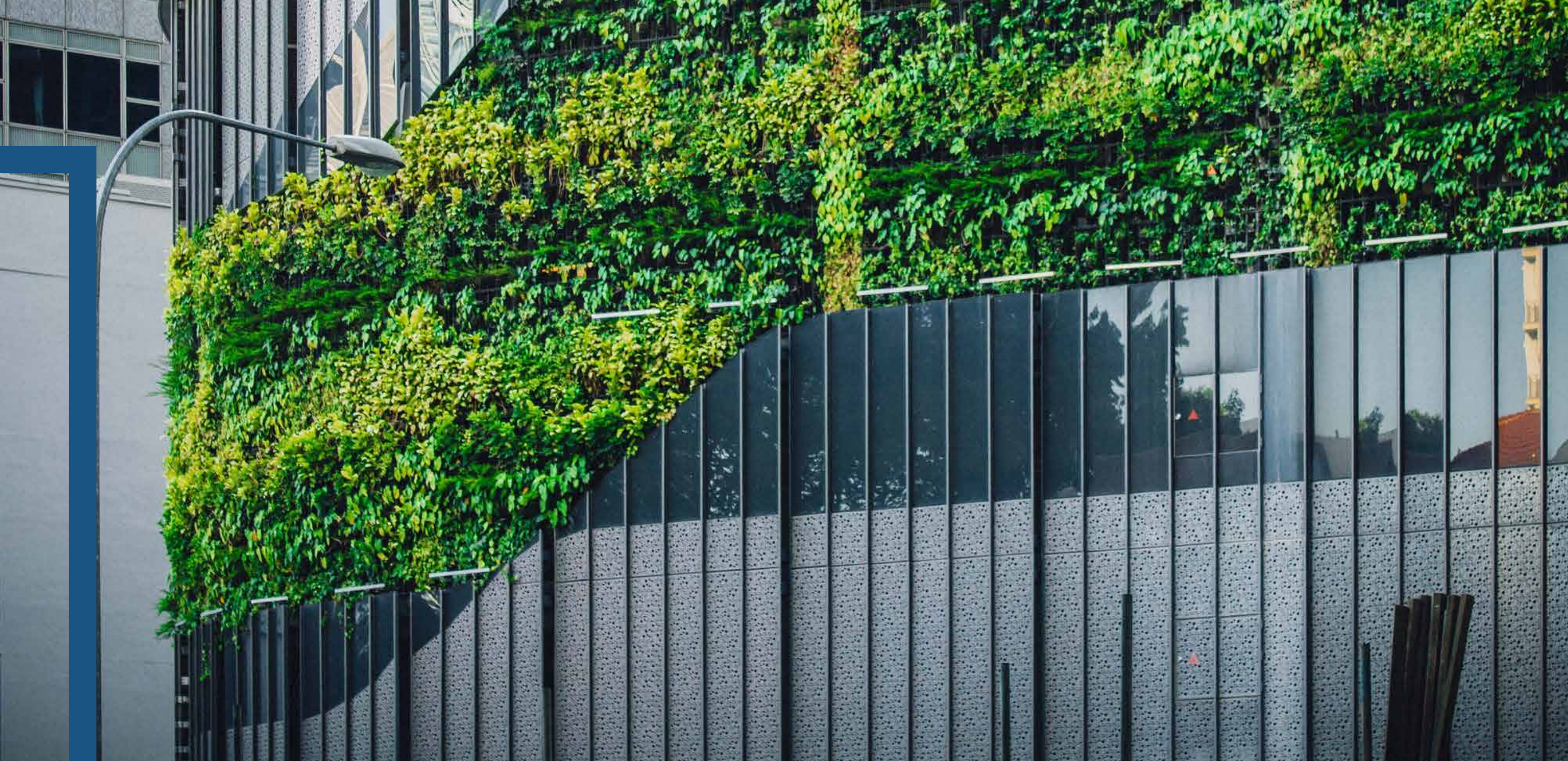


What They Probably Won't Tell You About ESG Investing

With commercial buildings responsible for about 40% of global emissions, green buildings are more important than ever. While sustainable buildings are important (and they are), it can be challenging to balance environmental sustainability and economic viability when it comes to greening a real estate portfolio. For example, consider the fact that retrofitting and construction costs for a LEED-certified building are about 7% to 9% higher than for a non-LEED building. But on the other hand, a recent JLL survey found that the value of LEED buildings is 21.4% higher on average than non-LEED buildings.

Another important aspect which is sometimes overlooked is that having a green building can lower a REIT's tax expenses. As an example, in states like New York, LEED buildings are exempt from certain local property taxes. Additionally, we're seeing that regulators are starting to incentivize energy-efficient buildings while penalizing dirty ones. All this means that the cost of owning a non-green building will become more expensive. That's where laws like LL97 come in: this mandates that from 2024 NY buildings that don't drastically limit emissions, they will be fined \$268 for every metric ton of CO2 they're over their limit.





Your ESG Journey Starts Here

We promised a practical guide. You may even recall that the word 'blueprint' was bandied about. Not to worry. This is the part where things get actionable. And that's a good thing because what many REITs find challenging about ESG investing is knowing where to start. That stops today.

In this guide, we're going to outline four steps you can follow to kickstart your journey. The first thing is to identify where you are on the journey. That's where you need to start. It's also important to consider whether there are transparent ESG structures and processes and how you will communicate ESG value. Other things to consider include whether your board, management and stakeholders share a point of view on the role of ESG in the REITs' long-term strategy.

Before We Begin: From Philanthropy to Obligation

ESG has quickly become a business imperative. But how do you make ESG work for you? Because the cruel reality is that most REITs can't afford to go green if they go into the red. The good news is that when done right, ESG and sustainability are linked to creating long-term value. But to do this, REITs need to reassess their purpose and values. Because ESG investing is about so much more than just regulation and policy. It's about your values as a company.

A Guide to Adding Value With ESG Investing

There are four steps for REITs looking to get started with ESG investing. These are Reframe and Reevaluate; Implementation; Acceleration; Evaluate and Report.

1. Reframe and Reevaluate

As the name suggests, the first stage is all about reframing and re-evaluating. Here you spend time doing the groundwork that will kickstart your ESG journey. It's a good idea to focus on your values and whether they may need re-evaluating. Additionally, it's important to evaluate the risks and opportunities so you can really create value. Based on this foundational work, you'll create a strategy that will benefit all stakeholders.

2. Implementation

The next stage is about taking a step back from strategizing. We like to think of this as the part where you get your hands dirty.

Here you'll start executing sustainability projects that you suspect will create tangible value. Another important thing to focus on is what steps you can take to deliver on ESG ambitions and targets. You may also take some time to set sustainability and ESG metrics.

3. Acceleration

Next up is the Acceleration stage. The aim of this step is to commit to your company's values and purpose. Here's you're taking things up a notch. You'll focus on finding a way to 'live' your ESG commitments. For example, you may start by rethinking your building design or looking for ways to implement climate tech solutions. At this stage of your ESG journey, your efforts will concentrate on accelerating your transition to sustainability.

4. Evaluate and Report

At this point, the focus is on gaining the trust of stakeholders. It's important to report on ESG progress and initiatives. Let's say you've improved water consumption by 5%. What does that mean for your bottom line, and how do you communicate that? Accurate and transparent reporting is one of the best ways to meet the evolving demands of regulators, investors and stakeholders.

Smart Climate Tech Has Come of Age. Finally.

Buildings face an immense decarbonization challenge. And yet, with the right climate technology, this challenge becomes an opportunity. Technology actually makes it possible to reduce emissions while also boosting a building's ESG rating. This is especially good news for REITs.

There are tons of climate tech solutions out there, and many of them are easy wins. These include things like LED lighting or HVAC upgrades that won't break the bank and yet still offer a positive investment return on investment.

Climate change technology for real estate is diverse and ever-evolving. There are more solutions than is possible to list. But a few include building management and automation solutions like Logical Buildings, Passive Logic and Aquicore. Then there are heating and cooling technologies like Dandelion, Heatworks, Radiator Labs, Bloc Power and Airkind. Some lighting tech solutions include LIFX and Nanoleaf. And lastly, there are smart facade and window solutions like Physee, Onyx, view and Kiinestral.



ESG-Thinking in Action

The Empire State Realty Trust has made ESG a priority. This REIT is a powerful example of how ESG can positively impact the bottom line. It relies on 100% green energy to power all its properties. So much so that it's considered the [most energy-efficient REIT](#) in NYC. And it has been focused on sustainability efforts for over a decade.

A great example of a building from this REIT is the Empire State Building. Over the past decade, the Empire State Building has reduced [GHG emissions by 40%](#). This amounts to about [\\$4.4 million in annual energy savings](#). Smart climate tech has also contributed to the building's energy efficiency.

Examples of this building's smart climate tech are its bipolar ionization air purification technology, which includes real-time air monitoring that helps neutralize coronavirus. There are other ESG-orientated building modifications like reflective barriers. These are added behind each steam radiator to circulate the heat inside the building rather than letting it escape outside. Window insulation is another factor that improves windows' resistance to heat and cold transfer.



Final Thoughts and Takeaways

ESG investing is the obvious choice. It's a vote for a better, carbon-neutral world. It's also a sound financial investment. And yet, there's still a lot of overwhelm surrounding ESG. Especially when it comes to REITs. The thing is, there's no real one size fits all approach to ESG investing. All REITs are different. And their journey may not follow the same path. The key is just to get started. And that could be something as simple as integrating smart climate tech solutions. Because at the end of the day, every little bit helps to put sustainability at the forefront. And this is how REITS can do their bit to make our world that much better for generations to come while still remaining profitable.



Want to see what our [**Climate Intelligence Platform**](#) can do for you? [**Schedule a demo.**](#)