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MEDIA BRIEFING

GCC real estate pivots towards ESG

Environmental, social and governance principles will influence investor decisions in the GCC real estate market

A leading financial institution in the UAE has said that environmental, social and governance (ESG) standards will play a critical role in real estate investment and purchasing decisions in the coming two to ten years.

"From a global standpoint, asset managers and fund allocators are increasingly prioritising companies that are ESG-focused, versus those that are not," says Asad Rahman, senior director, real estate finance and advisory at Mashreq Bank.

AT A GLANCE

- Environmental, social and governance reporting will continue to grow in relevance in the coming years, due to a paradigm shift driven by a push for sustainable, people-centric cities in the GCC
- The Covid-19 pandemic has reiterated the need to address concerns surrounding climate change, social issues, diversity and equality
- Sustainable real estate and infrastructure is becoming an attractive investment opportunity for issuers and investors alike
- Standardisation and regulatory framework is necessary to streamline ESG investments

Globally, nearly $490bn of green, social and sustainability bonds were sold in 2020 along with a further $347bn allocated into ESG-focused investment funds. For 2021, sustainable-debt issuance is expected to reach $650bn while money flows to ESG funds is set to continue.

"ESG wasn't a popular concept that was discussed with GCC clients four years ago, even though the term was first coined back in 2004," says Rahman. "But now, the concept is widely discussed by our clients, regardless of whether they're actively deployed in this theme at present or sitting on the sidelines."

The impact of climate change is becoming increasingly prevalent across the globe. There is an urgent need for businesses to adopt long-term sustainable strategies, and more so in the water stressed GCC region.

The shift from hydrocarbons to clean energy will not be easy for the GCC's oil-dependent economies. However, ambitious national targets are prompting change.

This transition is a necessity for the real estate sector – an estimated 40 per cent of all global carbon emissions come from the construction and operation of buildings.

The Covid-19 pandemic has further underscored the need to address issues such as economic disparities, environmental impact and gaps in healthcare systems.

In a January 2021 report published by property consultant JLL, sustainability and technology were

What is ESG?

ESG reporting refers to the disclosure of data covering the company's operations in three areas: **environmental, social and corporate governance**. It provides a snapshot of the business's impact in these three areas for investors.

Numerous institutions, such as the Sustainability Accounting Standards Board (SASB), the Global Reporting Initiative (GRI), and the Task Force on Climate-related Financial Disclosures (TCFD) are working to form standards and define materiality to facilitate incorporation of these factors into the investment process.

ENVIRONMENTAL

- Biodiversity and habitat
- Climate change
- Land contamination
- Energy consumption
- Greenhouse gas emissions
- Indoor environmental quality
- Location and transportation
- Materials
- Pollution
- Resilience to catastrophe/ disaster
- Renewable energy
- Sustainable procurement

SOCIAL

- Community development
- Health and safety
- Human rights
- Inclusion and diversity
- Labour standards and working conditions
- Social enterprise partnering Stakeholder relations
- Occupier amenities -showers, changing rooms
- Controversial tenants

GOVERNANCE

- Anti-bribery and money laundering
- Cybersecurity
- Data protection and privacy
- Legal and regulatory fines
- ESG clauses in existing leases

Source: United Nations: Principles for Responsible Investment identified as themes fast-tracked by the pandemic.

According to JLL, the pandemic has thrown health and wellness into the spotlight, where it will remain in the coming years. There will be an increased focus on sustainability and ESG topics. Sustainability will take centre stage as policy agendas turn green.

Overcoming challenges

While businesses are actively discussing environment-related aspects, social and governance conversations are still lacking.

Research conducted by data and analytics firm GlobalData notes that overall ESG mentions rose 40 per cent in H1 2021 compared to H1 2020.

However, companies mentioned sustainability phrases such as ‘environment’, ‘climate change’ and ‘carbon emissions’ in their company filings more often compared to words such as ‘social’, ‘governance’, ‘diversity and inclusion’, or ‘workplace diversity’ in 2021.

Real estate in the GCC needs to look beyond building just sustainable and energy efficient buildings – there is a need to deliver spaces that balance health, wellness and technology too. Clients now demand this in their offerings.

“Inclusion, diversity, work-life balance etc – these need to play just as much of a role,” says Rahman. “It is also about the health and wellbeing of the community, and this will play a significant part in investor decisions in the years ahead.”

In June 2021, DAE Capital, the global aircraft leasing division of Dubai Aerospace Enterprise (DAE) announced in its inaugural ESG report that it would shift its head office to the LEED Platinum certified ICD Brookfield Place in Dubai International Financial Centre, in a bid to reduce the firm’s carbon footprint.

Similar announcements were made by law firm Ashurst and Swiss banking group Julius Baer.

The focus on sustainable, smart and healthy communities also underpins Expo 2020 Dubai’s legacy project, District 2020. Designed as a “people-first, purpose-driven community”, the district is keen to position itself as a tech-enabled, futuristic urban hub for prioritising wellbeing.

Guiding investments

Rahman adds that a few listed exchange-traded funds (ETFs) are also actively prioritising ESG investments, and that companies that don’t take ESG seriously “may experience a deviation” in their future fund allocations.

Investor concerns regarding reporting and sufficient detail still persist. Technology could be one solution to improve this, supported by the necessary regulatory framework.

“Regulations are not yet globally standardised, but multi-jurisdictional collaborations are increasingly gaining momentum,” says Rahman. “Dubai Financial

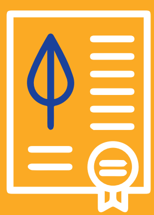
Implementing change

Abu-Dhabi headquartered Aldar Properties has seen a marked increase in its ESG results, scoring higher than all listed real estate companies in the UAE.

As highlighted in its third sustainability report published in August 2021, it was ranked third among all listed companies on the Abu Dhabi Securities Exchange and improved its ESG score well above the industry average for both Dow Jones Sustainability Index and MSCI.

Aldar is also one of the first companies in the Middle East to adopt the framework by the Task Force on Climate-Related Financial Disclosures (TCFD), an organisation created in 2015 to improve and increase reporting of climate-related financial information.

Aldar uses four pillars to benchmark developments – economy, community, people and environment. Aldar is also developing a Carbon Neutral Action Plan which will be launched by the end of 2021, to catalyse a reduction in carbon emissions and to drive the carbon neutral agenda across the business.



$490bn

of global green, social and sustainability bonds sold in 2020

$347bn

allocated into ESG-focused investment funds globally

Market has an ESG reporting guide that suggests a number of different metrics for listed companies. There are no penalties if the firms don't adhere to these guidelines, but it's increasingly obvious that those that adopt this could rise as market leaders."

In April 2021, the UAE Securities and Commodities Authority (SCA) released a circular indicating that all listed companies must submit a standalone sustainability report. In addition, listed companies must comply with the Global Reporting Initiative (GRI), the dominant international standard for sustainability reporting, and any other requirements issued by the relevant stock exchange.

"The importance of being ESG compliant to attract international capital will become more and more important as time goes by," says Rahman. "In time, there will be more government influence to keep up with global investment themes of ESG. The renewables space is here to stay and the reliance on fossil fuels is changing."

There were no contract awards for oil-powered or gas-fuelled power stations in the Middle East and North Africa (Mena) region in the first half of 2021, while in the same period, there were about $2.8bn of renewable energy project contract awards in the region, according to MEED's Middle East Energy Transition report.

"The shift in renewables and the allocation of capital by the likes of Mubadala to renewables – this is all happening now but will potentially be more relevant in the years to come," says Rahman.

Investment benchmark

In June 2021, Saudi Arabian tourism developer, the Red Sea Development Company (TRSDC) was awarded an overall score of 84 out of 100 by Amsterdam-based ESG benchmark Global Real Estate Sustainability Benchmark (GRESB). The developer was assessed on a number of environmental governance measures.

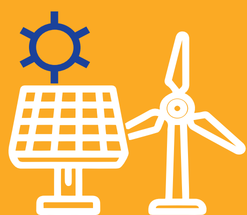
Within the environmental category, GRESB awarded TRSDC a score of 49 out of 51. The average score achieved is typically 34.

The developer was also awarded a "Green Star" for achieving a score higher than 50 percent in the management and development categories of the GRESB assessment.

In August 2020, regional retail and leisure operator Majid al-Futtaim was awarded a Green Star for the seventh year, scoring 84 and 82 points respectively for its standing investment and development portfolios.

Established in 2009, GRESB provides ESG benchmarking for global real estate and infrastructure investments. It is used by 140 institutional investors – with more than $47 trillion in assets under management – to better understand and benchmark the performance of their portfolios.

2,227 real estate and infrastructure entities participated in the 2021 GRESB assessment, a 26 per cent increase over 2020 figures.



$2.8bn

of renewable energy project contracts awarded in the Mena region in H1 2021

This briefing is brought to you by the MEED-Mashreq Real Estate Partnership

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