ESG IS HERE TO STAY

PRESSURE IS MOUNTING FOR THE COMMERCIAL PROPERTY SECTOR TO WHOLEHEARTEDLY GET ONBOARD THE SUSTAINABILITY AND ACCOUNTABILITY TRAIN.

BACKDROPPED BY A GLOBALLY-recognised climate emergency and with a lofty goal for New Zealand to attain net-zero carbon emissions by 2050, the government has tasked itself to make the public sector carbon-neutral by 2025, and to be an exemplar for the private sector to follow suit.

With all government departments and ministries now required to measure their emissions and offset the ones they cannot remove by 2025, and to only occupy buildings meeting energy-efficient thresholds with NABERSNZ ratings, the wider commercial property sector is firmly in the spotlight.

It is accepted that 40 percent of carbon emissions come from the built environment, but environmental sustainability is just one component of the "ESG" principles that are increasingly underpinning and defining corporate business in New Zealand, mirroring international best-practice.

The corporate world is transitioning to a lower carbon, more sustainable, and more resilient future where people and community are paramount.

The abbreviation "ESG" covers the three pillars of environmental, social and governance – performance indicators used to assess a company or investment project to determine its sustainability.

Bayleys' global real estate partner Knight Frank, defines the three factors as:

- Environmental – a company's impact on the environment and its ability to mitigate risks that could harm the environment
- Social – a company's relationships with other businesses and communities and its attitudes towards diversity, human rights, and consumer protection
- Governance – internal company relationships with main stakeholders, including employees and shareholders.

Landlords and occupiers are turning their attention to ESG principles, with assets now being scrutinised via a sustainability lens, and operational practices benchmarked against globally-acceptable thresholds.

The "social" side of the ESG equation has arguably been most-impacted by the COVID-19 outbreak, with health, well-being, human rights and collaboration thrust into the limelight.

Commercial real estate owners are expected to have an ESG framework in place, to incorporate ESG principles into strategy, organisation and decisions, to deliver on commitments and to consider what ESG means for tenants, investors and other stakeholders.

NZX-listed Argosy Property said its environmental policy "reflects our ambition to create vibrant sustainable workplaces for our tenants". It said green buildings have the potential for increased marketability, higher rental rates, lower operating costs, higher occupancy, improved worker productivity and occupant health and well-being, and lower regulatory risk.

Stuart Bent, general manager Bayleys Property Services (BPS), which manages a national portfolio of more than $3.7 billion worth of commercial and industrial property across 770 sites, says the BPS team is exposed to a broad spread of commercial real estate owners and

occupiers looking to make a positive difference to the built environment.

"Whether it's reducing the consumption of power or water, the diversion of waste from landfill, or lowering business and/or property carbon emissions – it can have a potentially significant environmental impact," he said.

"We are partnering with more owners – particularly those offshore – that promote their ESG platforms and BPS plays a part in keeping these front of mind for all stakeholders."

Bent says more specifically, clients are increasing relying on BPS to provide building performance data and key sustainability indices that intersect with building owners' overarching ESG objectives and expectations.

"Our clients range from local privately-owned companies to large offshore institutional corporates.

"The institutional market tends to have an embedded ESG philosophy and established approach within their built environments, while the understanding and awareness within the private owner sector is less advanced.

"However, good advocacy by the New Zealand Green Building Council (NZGBC) coupled with other professional property entities promoting better environmental responsibility, has resulted in a noticeable shift in mindset right across the commercial real estate industry."

Bent said the government's new commitment to occupying only NABERSNZ energy rated buildings, is helping to disseminate the sustainability message.

"The challenge longer-term is encouraging owners of existing commercial buildings to 'green up' their assets.

"Sustainability initiatives are much easier to implement at the design phase pre-build, rather than once into a building's lifecycle which can become costly for owners who may question the return on this capital investment."

Bent believes Bayleys has an onus to lead by example and as such, it occupies a NABERSNZ-rated building and demonstrates social responsibility by embracing diversity, equality, commitment to the community and broader outcomes that support young New Zealanders in the property sector.

"Our latest pathway initiative is to carbon zero, starting with BPS committing one of our managed assets through the NZGBC net zero carbon certification programme, so watch this space."

Steve Rendall, Bayleys' national director Office Leasing, said there is no question that corporate landlords have become much more proactive in the ESG space in the past few years.

"You don't need to look far beyond the major listed owners of office properties to get a sense for how important this area has become," he said.

"Australia and New Zealand have recently scored the highest in the latest annual ESG ratings by the Global Real Estate Sustainability Benchmark (GRESB), the leading data collector and assessment organisation for property and infrastructure.

"Market-leading organisations like Precinct Properties have chosen to use the GRESB metric as its core ESG performance benchmark, and Argosy Property has an ESG framework that underpins various aspirational environmental goals it has set for itself.

"Both Precinct and Argosy are

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BAYLEYS PROPERTY SERVICES

Toitū Envirocare carbonzero certified organisations, and Kiwi Income Property Trust has been operating a sustainability programme for more than 16 years, which elevates its value proposition to portfolio occupants."

Rendall said today's commercial property occupants and their employees expect landlords and the organisations they interact with to take meaningful steps to improve sustainability footprints – now.

"Landlords proactive in the ESG space will enhance their relevance and desirability in the leasing market, essentially by creating stock that is significantly more valuable and competitive from a multitude of perspectives.

"Particularly for larger public sector and corporate occupants, ESG data is increasingly important, as stakeholders want to see measured and reliable reporting that demonstrates the extent to which the tenant is meeting expectations."

Rendall said while having a clear ESG framework is increasingly seen as being "the right thing to do", there's also a material financial incentive.

"We've seen enormous growth of ESG investing in global capital markets in recent years with global sustainable investment exceeding USD $30 trillion as at November 2019, up 68 percent since 2014 and tenfold since 2004, according to McKinsey and the Global Sustainable Investment Review 2018.

"ESG investing is an umbrella philosophy that seeks both long-term positive financial returns and positive outcomes for society, the environment and the performance of the business.

"The impact of ESG investing and the incentivising and mobilising effect it can have on corporate behaviour is very powerful and there's evidence to suggest ESG investments can provide both high returns (consistent with traditional

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STEVE RENDALL, BAYLEYS' NATIONAL DIRECTOR OFFICE LEASING

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investments) while also delivering lower risk.

"It seems clear that ESG-based policies can help deliver profit, attract and retain tenants, while also enhancing the resilience of portfolio and asset performance."

Paula Bennett, Bayleys director Strategic Advisory, said while the government has made laudable promises regarding ESG, she's yet to see the detail of what that means in practice.

"There is an opportunity now as corporates, government departments and indeed the wider public call for healthier, greener and more sustainable buildings, for the government to lead this work and be definitive in their expectations.

"More can be, and needs to be, done as we seek to lower emissions in New Zealand."

Andrew Eagles, chief executive NZGBC, said it is unquestionably time for government to step up to the ESG plate and mandating NABERSNZ ratings across the commercial property sector would be a good start.

"The government has a long way to go to match the achievements of Australia in this space.

"It's mandatory in Australia for buildings and offices of more than 1,000 square metres to have a NABERS rating, but it's voluntary in New Zealand.

"The energy efficiencies harnessed by the Australian sector has saved businesses AU$1billion, and slashed seven million tonnes of carbon emissions in the process.

"The economics, financing, politics, and people of New Zealand are all aligning for a zero carbon Aotearoa, and by default, that means having highly energy efficient properties."

Eagles said the ramifications for landlords that do not act on environmental issues are becoming increasingly apparent and throws further light on the benefits of NABERSNZ accreditation.

"A 'head in the sand' approach results in higher running costs, potential inability to access investor funds, and an inability to attract government tenants.

"Further, building owners that do not address sustainability have greater exposure to regulatory change and could find themselves with 'sick building syndrome' that makes them less attractive to New Zealand businesses."

Eagles said sustainability is moving up the agenda of New Zealand corporates, with the Climate Leaders Coalition comprising 140 of New Zealand's larger companies (contributing more than 30 percent of the country's GDP) committed to getting to significant low carbon goals.

"Additionally, 200 of New Zealand's largest asset holders will shortly be required to produce climate-related financial disclosure."

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This includes all registered banks, credit unions, and building societies with total assets of more than $1 billion, all managers of registered investment schemes and Crown financial institutions with greater than $1 billion in total assets under management, all licensed insurers with more than $1 billion in total assets under management or annual premium income greater than $250 million, and all equity and debt issuers listed on the NZX.

Eagles said the COVID-19 environment has prompted a rise in interest in NABERSNZ with certifications for its tools up, NZGBC membership up and a heightened appreciation for the ability of green buildings to deliver healthier built environments with better air quality, daylight, acoustics and thermal comfort.