



ESG SPOTLIGHT

How ESG Drives Value By Building Trust

COVID-19 profoundly altered our understanding of how we build and sustain trust. For one, organizations are taking a longer view of value and the social impact of their corporate philosophy and decisions. Real estate companies are looking to build sustainable trust in how they invest and develop, and how they support the health, safety, and well-being of occupants and surrounding communities.

Real estate's stakeholders extend beyond investors, owners, operators, and tenants to also include members of a much broader community. Now, more than ever, the industry has a responsibility to build trust with those stakeholders. Increasingly, real estate organizations are adopting **environmental, social, and governance (ESG)** initiatives to demonstrate a commitment to corporate responsibility and sustainability, and show how they are working to address issues like climate change, social equity, and diversity.

ESG aims to instill a sense of purpose by encouraging businesses to become prudent caretakers of the planet and its people – and not necessarily for profit, though that may follow. Company commitments should spring from a genuine desire to make a difference. But as we see more investors and consumers increasing their focus on ESG, the real estate industry is starting to understand how ESG efforts can create competitive advantages and the ways purpose can lead to profit.

An effective ESG program should be built using both a top-down and bottom-up approach that includes solid cultural changes within the business. ESG can be an impactful way to boost business performance, burnish reputations, and improve employee satisfaction, safety, and productivity. To deliver on those outcomes, the real estate sector must understand that ESG is a human discipline based on trust.

Are you ESG-ing?

While many real estate business leaders know what ESG is, they don't understand the specifics of how to flip the noun into a verb. How do you ESG? The industry has been and is currently "ESG-ing" in some ways. The built environment itself is a significant factor in global environmental initiatives. Technology has enabled healthier building strategies that help address concerns of tenants and surrounding communities. But it's defining corporate goals and aligning actions to espoused values that creates real movement.

We recommend starting with an analysis of the organization's current values and operations, and future ambitions. This will help establish which initiatives will have the greatest impact or best support desired outcomes over time. To do so, organizations need to assess existing social responsibility strategies and identify new initiatives, set metrics to measure success, and communicate consistently.

ESG is everybody's business

There's no single model for building an ESG program, and each business will have its own values and situations to consider. Charting your journey will require agility throughout the organization, and demand resilience of and in every person. Understanding and addressing the ESG priorities of all stakeholders is critical.

- **Tenants:** As COVID-19 lingers, many tenants will require buildings that promote health and well-being, in addition to being eco-friendly: sustainable facilities with contactless switches, advanced air filtration, and automated heating and cooling. Some of these technologies generate a lot of data about building occupants, and tenants will want assurance that information collected from or about them is being used prudently to improve their environments – without impairing data privacy.
- **Employees:** Younger workers are elevating the importance of ESG as they ascend the organizational chart. The next generation of talent is looking for work with a purpose. They are loyal to employers and brands that support their values. Earning their trust can be an impactful way to boost employee satisfaction, workplace health and safety, and productivity.
- **Surrounding communities:** At a macro level, ESG, like real estate, runs on a global scale. "E" is a global concept; carbon is carbon in Texas, as it is in Hong Kong. "G" comes down to the region and local regulations. But the actual execution of "S" is in your backyard. Inclusivity, equality, and diversity are social factors that vary across communities and geographies. Still, organizations should foster a global view that pushes social responsibility to the smallest of villages. The goal is to play a role and help a community evolve to fit the needs of the people within it.
- **Investors:** Increasingly, investors want a full account of a company's ESG efforts – and outcomes – before they invest. Companies must demonstrate that they have clear ESG goals and sound business strategies in place to support them, in addition to enhancing operational agility, protecting tenant stickiness, and governing processes and risk strategies.
- **Developers:** Real estate developers have increasingly been committing to ESG by designing and constructing environmentally green and sustainable buildings, or adding enhancements like grass roofs and contactless switches to enhance occupants' well-being. They are also beginning to invest in properties in underserved areas to help address the inequities in low-income housing.
- **Owners/operators:** Many companies already aspire to reduce the impacts of their energy consumption. Yet a building's carbon footprint also depends on what it is used for and other factors like public transportation. Real estate owners and operators should also have a genuine commitment to social and environmental responsibility and understand why they care about certain issues.

Trust takes transparency

Finally, as organizations develop and execute on their ESG plans, it will be critical that along the way they provide transparency into their priorities, processes, and outcomes. Healthy governance and transparency are the foundation upon which trust is maintained across all stakeholders. Becoming transparent will require extensive communications with stakeholders, genuine human interactions, and an unwavering commitment to honesty.

Join the Conversation

CohnReznick's new ESG Spotlight will be a recurring forum to discuss ESG developments and highlight innovative approaches and developments. If you would like to participate, contact us at TCIS@cohnreznick.com.