منتدى مستقبل العقار
Real Estate Future Forum

Greening the Blueprint

ESG Trends Transforming the Real Estate Sector

In collaboration with
Boston Consulting Group

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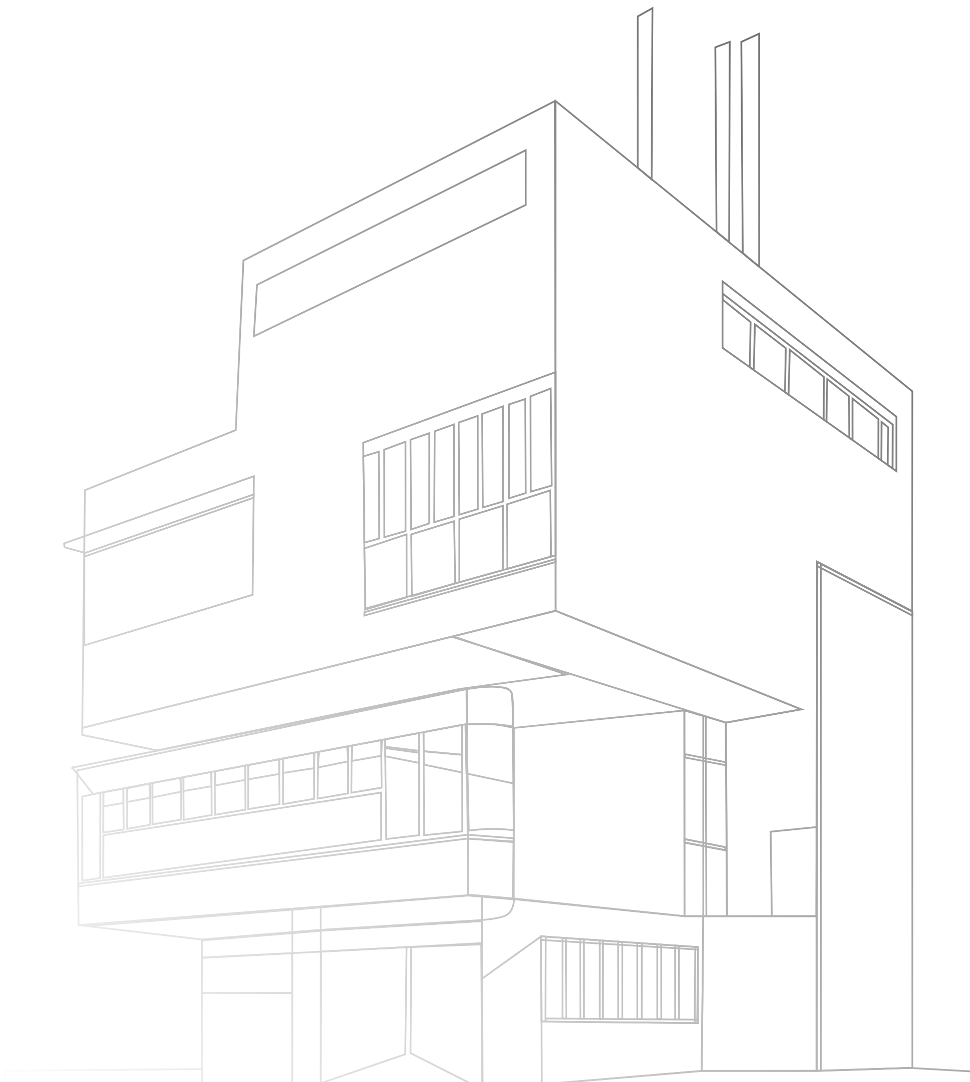
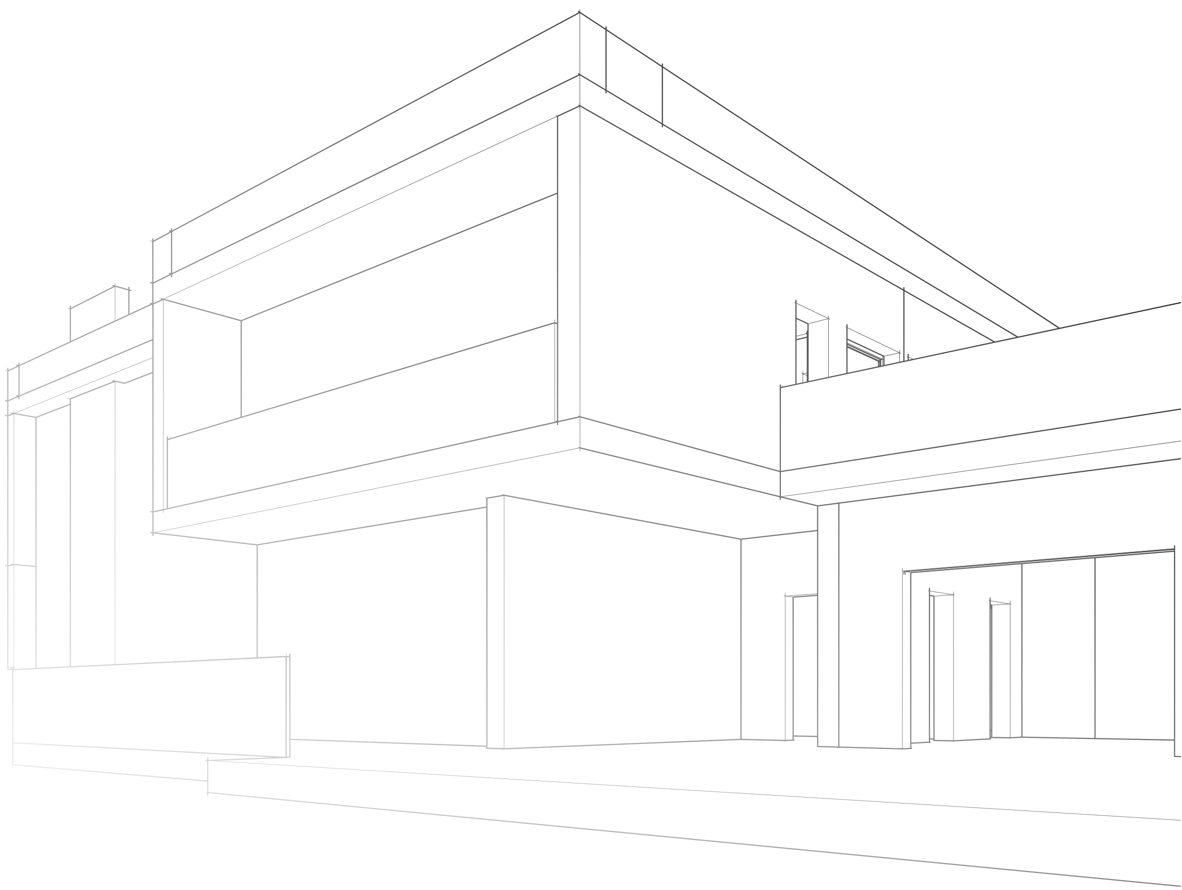


FOREWORD

In the ever-shifting landscape of real estate, Environmental, Social, and Governance (ESG) considerations have emerged as essential indicators of companies' impact beyond their offering and bottom line. A growing awareness of the environmental and social responsibility of companies and the risks involved in non-compliance has made ESG topics more important than ever—including within the real estate sector. As legislative winds favor ESG and investors increasingly scrutinize ESG criteria, the industry is already experiencing an evolution in ESG. From regulatory changes to the imperative of resilience and innovation, this article explores the multifaceted landscape of ESG in real estate globally and regionally, including the rising trends, challenges, and urgency for stakeholders to adapt, laying the foundation for a sustainable future in real estate.



01

The Rising Trend of ESG Integration in Real Estate

ESG frameworks play a crucial role in evaluating a company's impact, long-term risks, and value-creation opportunities for society and the environment, including how environmental or social issues might affect financial performance or reputation. A holistic approach to ESG thoroughly assesses the company's commitment to sustainable and responsible business practices.

Environment:

This component of ESG is about how a company's operations and policies are aligned with environmental stewardship. It reflects the company's commitment to minimizing its negative impact on the natural world. Criteria span waste management, resource conservation, reduction of carbon footprint, and the company's impact on natural habitats.

Social:

The “social” aspect of ESG addresses how a company manages its relationships and responsibilities towards people and society at large. It's about assessing the company's values and practices in terms of its impacts on employees, customers, communities, and other stakeholders and involves a comprehensive examination of labor practices, employee health and safety, diversity and inclusion policies, and community engagement.

Governance:

Governance in ESG relates to the systems, practices, and principles that guide the management and oversight of a company. It encompasses the company's internal controls, leadership structure, decision-making processes, and adherence to legal and ethical standards. Considerations include executive pay, audits, internal controls, shareholder rights, and transparency.

A significant 60% of respondents to CBRE’s 2021 Global Investor Intentions Survey stated that they have already adopted ESG criteria as part of their investment strategies, with Europe, the Middle East, and Africa (EMEA), the Americas, and Asia-Pacific all recording a stronger focus on ESG issues than in previous years[1]. While the sustainable real estate movement is often viewed as a niche alternative investment choice concentrated in Europe, our research reveals a different reality. Investors currently manage $120 trillion USD of financial assets—including real estate—under voluntary climate change disclosures, and there are now more than 120,000 green-rated real estate assets clustered around the world. Further, a coalition of leading REITs, industry associations, and researchers have collaborated to rapidly advance the quantity and

[1] CBRE: ESG and Real Estate - The Top 10 Things Investors Need to Know | CBRE

quality of ESG reporting. Over 2,000 companies voluntarily reported to the Global Real Estate Sustainability Benchmark (GRESB) in 2023, compared to only 850 in 2017[2].

For those targeting resilient returns, gaining exposure to ESG certified or certifiable assets will become increasingly important for three reasons.

First, the legislative tide is turning, increasingly favoring ESG-aligned assets. For example, in 2023, The European Union (EU) adopted the European Sustainability Reporting Standards (ESRS), which requires detailed sustainability reporting starting January 2024[3]. New construction in countries like the Netherlands will require minimum energy performance certificate (EPC) ratings from 2023. Further, though not a legislative body, the Global Real Estate Sustainability Benchmark (GRESB) offers a standardized, industry-leading assessment framework for real estate companies, funds, and developers to report on the ESG performance of their portfolios and assets worldwide[4].

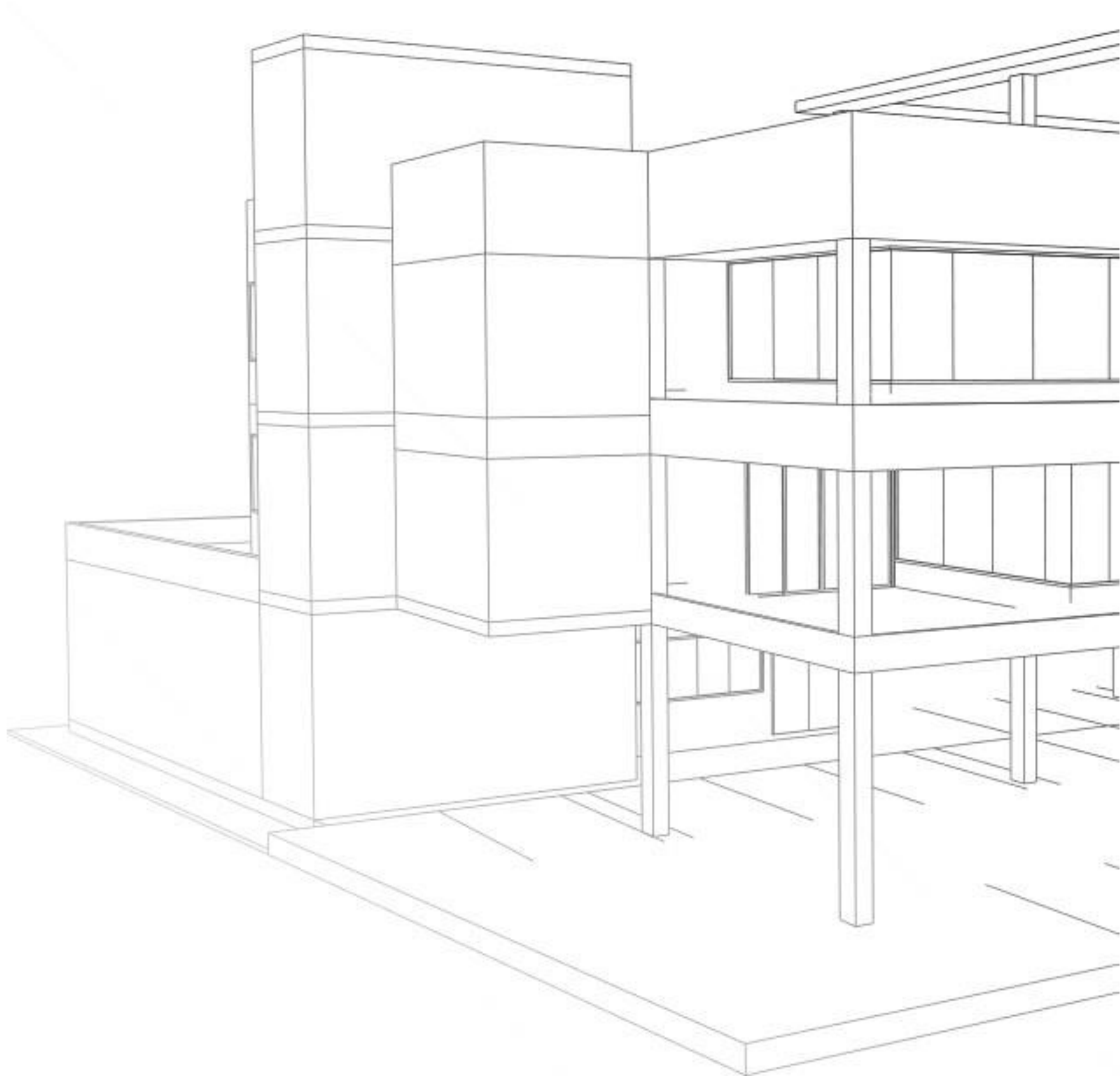
Second, ESG-aligned real estate will drive greater tenant retention and income resilience. Companies often desire that the buildings they operate in reflect their ethos. As brands, their workforces and customers, increase their focus on ESG, green and socially responsible office space is a visible way to demonstrate commitment to this cause.

Third, a broader range of financing options will be available to developers and investors in ESG-focused real estate in the future. Consequently, these assets will enjoy a deeper potential demand base than others and ultimately benefit from more resilient pricing.

Despite the known benefits of ESG, challenges persist within the real estate sector. Real estate companies often adopt a passive approach, focusing more on risk mitigation than proactive strategies. The industry is also divided when it comes to understanding and implementing ESG. While some companies prioritize ESG highly, others lack awareness of what it entails. This disparity is particularly prominent by geography. Scandinavian and Oceanian companies like NREP and Newsec lead in ESG efforts: NREP has a Net Zero target of 2028 and has built more than 20,000 housing units addressing underserved segments such as care homes and student housing[5], and Newsec is a signatory of the UN Global Compact which focuses on human rights, labor, environment, and anti-corruption[6]. Meanwhile according to estate agency Savills, three-quarters of the UK office market falls below the minimum energy efficiency standards set to be in place by 2030. A third of Italian offices and a quarter of those in Ireland face the same problem[7].

[2] GRESB: 2023 Real Estate Assessment Results
[3] ArentFox Schiff: Top 10 ESG Developments for 2023
[4] Chainels: ESG frameworks for real estate - A 2023 guide (getchainels.com)
[5] NREP website: Sustainability introduction
[6] Newsec website: Sustainability leading our way
[7] FT: The great green office crunch

Nevertheless, getting ahead of the curve on ESG is imperative for any company that seeks to build resilience and lead in the sector. Innovation is vital to risk mitigation, and companies focused on ESG are often more innovative and competitive in their markets. After all, addressing environmental and social problems often involves developing new products and services—thinking creatively beyond industry norms. Currently, half of the revenues of the 500 largest American companies and the 1,200 largest global companies are generated in business activities that support the United Nations Sustainable Development Goals (SDGs)[8].



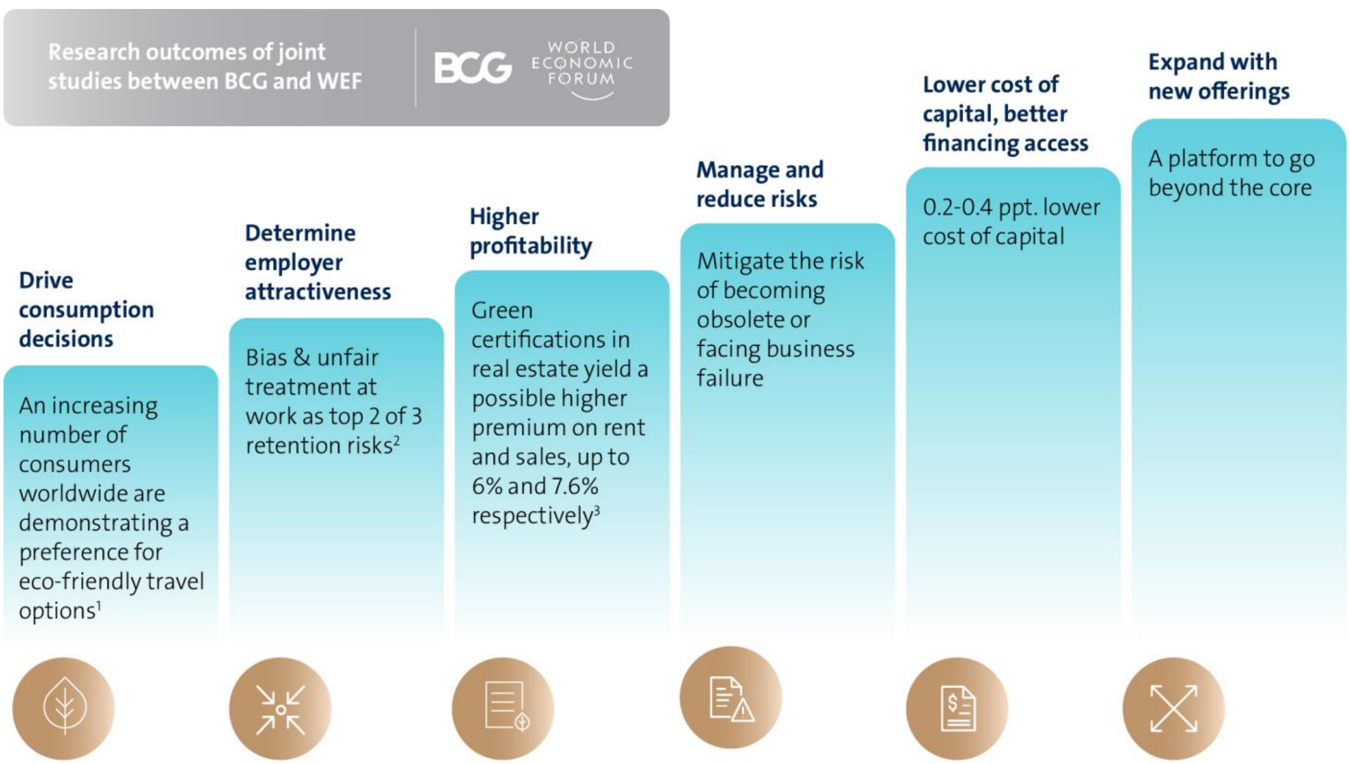
[8] S&P Global Market Intelligence: The State of Green Business 2021 Positive Impact

02

ESG's Strategic Role: Maximizing Profit and Compliance

There is compelling evidence that corporate performance regarding ESG contributes to overall business performance—and that the relationship persists over time. The reasons are simple. As awareness of ESG issues accelerates, consumers increasingly seek partnerships with companies that align with their values. Companies that emphasize and deliver impact on ESG factors often experience better operational efficiencies and cost savings, leading to enhanced profits over time. In a Moore Global study, companies globally that claimed to place importance on ESG, through a self-assessment of their practical action over a defined time horizon, saw revenues significantly outperform companies that openly disregarded its importance—an average growth of 9.7% versus 4.5% between 2019 and 2022[9]. Moreover, these companies find it easier to raise capital, outpace their peers in growth and profitability, and achieve higher equity returns, showcasing a positive correlation between strong ESG performance and reduced downside risk[10]. The benefits of sustainable development are outlined in Exhibit 1. Players across the sector are taking note and adapting accordingly.

Exhibit 1: The key benefits of ESG in driving business value

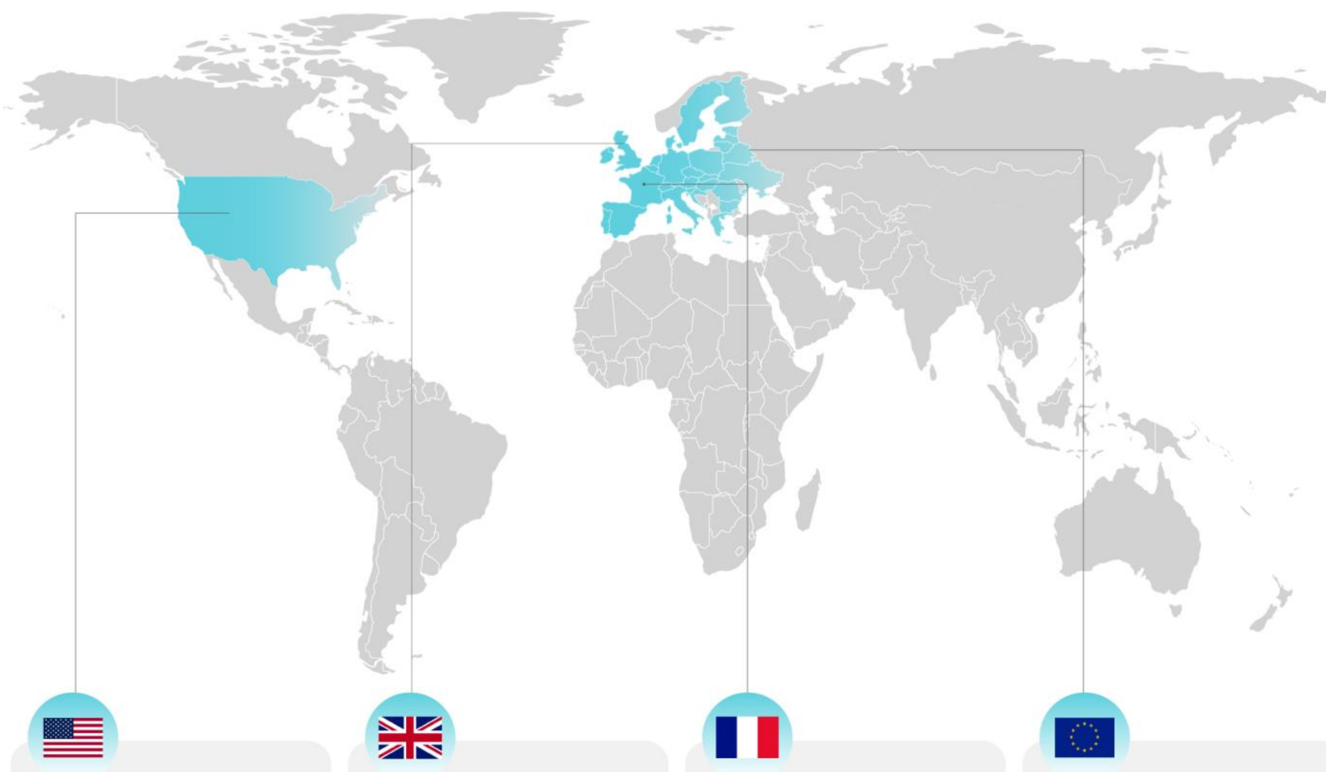


1. BCG Center for Customer Insight 2. BCG Future Forum pulse, conducted Nov 1-12, 2021. Number of completed responses = 10,279. Countries covered: US, UK, Australia, France, Germany, and Japan 3. WEF: The conversation about green real estate is moving on as corporates prioritize sustainability
Source: BCG Analysis

[9] Capital Monitor: Link between ESG and profitability exists - New research
[10] Capital Monitor: Link between ESG and profitability exists - New research

Governments and regulators globally are elevating expectations and introducing new ESG disclosures to foster transparency and responsibility. A few examples are highlighted in Exhibit 2.

Exhibit 2: New non-financial/ESG disclosures under discussion



United States:
The US Congress is discussing the Security and Exchange Commission's role in ESG and climate disclosure for the first time, including through the ESG Disclosure Simplification Act and Climate Risk Disclosure Act [1]

United Kingdom:
The Stewardship Code requires asset owners to report on stewardship and include ESG factors in investment decisions [2]

France:
Article 173 requires listed companies to report on financial risks related to climate change and measures adopted to reduce them [3]

Europe:
The European Union's European Sustainability Reporting Standards (ESRS) requires companies to describe their sustainability strategy, policy, implementation, and performance indicators and conduct a materiality assessment process.[4]

1. ESG Disclosure Simplification Act of 2021 2. Financial Reporting Council 3. Task Force on Climate-related Financial Disclosures
4. Blue Module: ESRS standards breakthrough in ESG reporting, significant impact on the real estate sector

Investors across asset classes are also demanding more ESG disclosures and data. The Kingdom of Saudi Arabia's Public Investment Fund (PIF) has declared its ambition to become a leading Sovereign Wealth Fund in ESG, directing its portfolio companies to develop ESG policies and guidelines[11]. In particular, investors are increasingly aligning with the social responsibility aspect of ESG to mitigate business and reputational risks. For instance, human and labor rights infringements reported over the past decade in the regional construction sector have spotlighted Health & Safety and Worker Welfare as material social considerations.

Other businesses are proactively gaining an advantage with investors by addressing ESG. Up to 20% estimated valuation premiums are associated with higher ESG performance in select industries: 11% in consumer packaged goods, 12% in biopharmaceuticals, and 19% in oil and gas[12].

Finally, according to BCG research, while less than 7% of **consumers** pay a premium for sustainable products and services today, 40% could be convinced to make sustainable choices[13].

Exhibit 3: Sustainable finance is becoming mainstream

ESG data is becoming increasingly transparent and scrutinized	**$0.5-~1B** Current size of ESG data industry, with expected growth rates of 20-25% p.a.	**>75k** Number of data sources that Truvalue Labs' machine learning algorithm scrapes to analyze millions of documents each month
Sustainable investing is now mainstream	**$30T** Global sustainable AUM in 2018	**350** Number of ESG funds and ETFs available to US investors
Investors are increasingly incorporating ESG metrics into decision-making	**16%** Yearly growth rate in global assets invested in a sustainable way, vs. 3% growth in global assets invested overall, 2016-2018	**~70%** Growth of assets under management with ESG integration (2016-2018 CAGR)
Peers are proactively gaining advantage with investors by addressing sustainability	**18%** Growth in number of companies publishing integrated reports in Japan, 2017-2018	**Up to ~20%** Estimated valuation premiums associated with higher ESG performance in select industries

Sources: Opimas LLC, factset.com, GSI Review 2018, investor.vanguard.com, integratedreporting.org, fsb-tcfd.org, EU directive 2014/95/EU, BCG analysis

[11] PIF Green Finance Framework

[12] BCG article: Insights on Total Societal Impact from Five Industries

[13] BCG article: Consumers Are the Key to Taking Green Mainstream

03

Zooming in on Saudi Arabia: Momentum in the Market Towards ESG

Saudi Arabia is actively implementing measures to boost ESG practices. The PIF Green Finance Framework, along with additional directives set to be implemented in 2024, has been driving a significant push for ESG policy development in real estate projects. The PIF has already invested $400 billion based on ESG principles, reflecting a substantial shift towards sustainable and environmentally responsible projects[14].

Additionally, the Saudi Stock Exchange too, is undergoing a shift. Tadawul has launched ESG guidelines to support sustainable practices in the Saudi Arabian market. These guidelines are designed to align with international standards and encourage companies to voluntarily disclose their ESG performance. The focus areas include renewable energy, water and electricity management, and carbon usage, among others[15].

Tadawul has assisted more than 200 listed companies and IPO candidates in going public with their ESG reporting and raising local market awareness. In 2022, it also launched a partnership with the Kingdom's Cultural Development Fund to provide a channel for Saudi companies to connect with and invest in cultural and heritage projects—part of a comprehensive plan to promote robust compliance with international and local ESG standards.

A shining example of ESG commitment is Red Sea Global (RSG), a company owned by PIF that develops regenerative tourism and construction projects. RSG has set an ESG strategy, is reporting against it, and has well defined initiatives. On the social front, it has supported the creation of 120,000 jobs and graduated 10,000 participants in its educational programs, with at least 50% coming from local communities surrounding RSG developments[16]. In its pursuit of environmental sustainability, it aims to power all its development with 100% renewable energy and achieve net zero operations by 2030. Finally, RSG has also set high standards in transparency and accountability by publishing a comprehensive Sustainability Report before the official start of operations.

Similarly, ROSHN, Saudi Arabia's national real estate developer, unveiled a new residential project in 2023 with a focus on making sustainable and green housing accessible to as much of society as possible. Alfulwa, ROSHN's first integrated community in the Eastern province, will follow its five-pillared ESG approach encompassing Community Development, Environment and Sustainability, Art and Culture, Health and Wellness, and Education and Innovation[17].

[14] Zawya: Saudi Arabia's PIF has $400bln worth of ESG-based investments
[15] Argaam: Tadawul's launch of ESG guidelines 'step forward' to advance practices in Saudi Arabia: Al-Rumaih
[16] Red Sea Global website
[17] Cityscape Intelligence

The PIF's disbursement of green funds to green buildings in real estate further drives the push for ESG. Eligibility criteria are defined as existing commercial or residential buildings that belong to the top 15% in terms of energy efficiency of their local market or that have received or expect to receive certification according to third-party verified green building standards.

1. LEED (Gold and above)
2. BREEAM (Excellent and above)
3. Mostadam (Gold and Diamond)
4. Other equivalent certification schemes, such as EPC A and above[18].

A report by Knight Frank reveals several more major ESG shifts in the Kingdom[19]. A noteworthy number of LEED-registered projects in Saudi Arabia indicates a growing interest in sustainable construction practices. A remarkable 96% of Saudi Arabian projects that apply for certifications successfully receive Silver, Gold, or Platinum levels. For comparison, in the UAE and Turkiye, 70% and 93% of presented projects are certified at or above the LEED Silver level, respectively[20]. Several of the Kingdom's mega projects have even obtained a "pre-certification," such as the Diriyah Gate, which was awarded platinum-level precertification for LEED by the U.S. Green Building Council (USGBC)[21]. Saudi companies are increasingly focusing on the social aspect of ESG. For instance, as part of its Corporate Social Responsibility efforts, ROSHN group donated SAR 25 million for charitable work in April 2023. Their flagship CSR program, Yuhyeek, advances Saudi Arabia's social and economic development and encourages sustainable, healthy lifestyles. Yuhyeek also supports people with disabilities, runs national awareness campaigns, and invests in art and culture through collaboration with the Ministry of Culture. Additionally, ROSHN has partnered with Tarmeem Charity to renovate houses across Saudi Arabia, to create a lasting social impact by improving housing quality. Finally, the Kingdom has also implemented reforms to improve corporate governance practices and transparency. The Capital Market Authority (CMA) has introduced the Corporate Governance Code, which outlines standards for boards of directors, disclosure requirements, and shareholder rights, aiming to enhance accountability, protect investors, and attract foreign investment. ESG integration should be an intrinsic aspect of every company's operations, and the examples cited herein represent commendable progress in the right direction.

[18] PIF Green Finance Framework

[19] Sustainable Saudi: Exploring the ESG vision

[20] This could be attributed to the fact that only projects with significant sustainability goals tend to seek certifications

[21] Zawya: Saudi giga project Diriyah Gate achieves LEED platinum pre-certification

04

The Growing Importance of ESG Value Creation in Real Estate

Empirical evidence shows that a focus on sustainability can drive incremental value for ESG, as outlined in Exhibit 4.

Exhibit 4: ESG as a driver of value

World Green Building Council	JLL	CBRE	Knight Frank	wbcsd	GBC
Two-thirds of owners and developers believe applying green practices to a building would increase its asset value by 6% or more [1].	Sustainable buildings have an increased rental value of 6 to 11%, and vacancy is lower 12 and 24 months after completion [2].	Sustainable buildings in Denmark receive 29% higher rental income and significantly shorter void periods [3].	In Central London, BREEAM ratings add premiums ranging from 3.7% to 12.3% on office rents [4].	There is a demonstratable advantage from the flexibility and lower costs of circular buildings, which opens the potential for increased rental prices [5].	Green design corresponds with an increase in the value of buildings, higher rental premiums, lower tenancy void periods, and more [6].

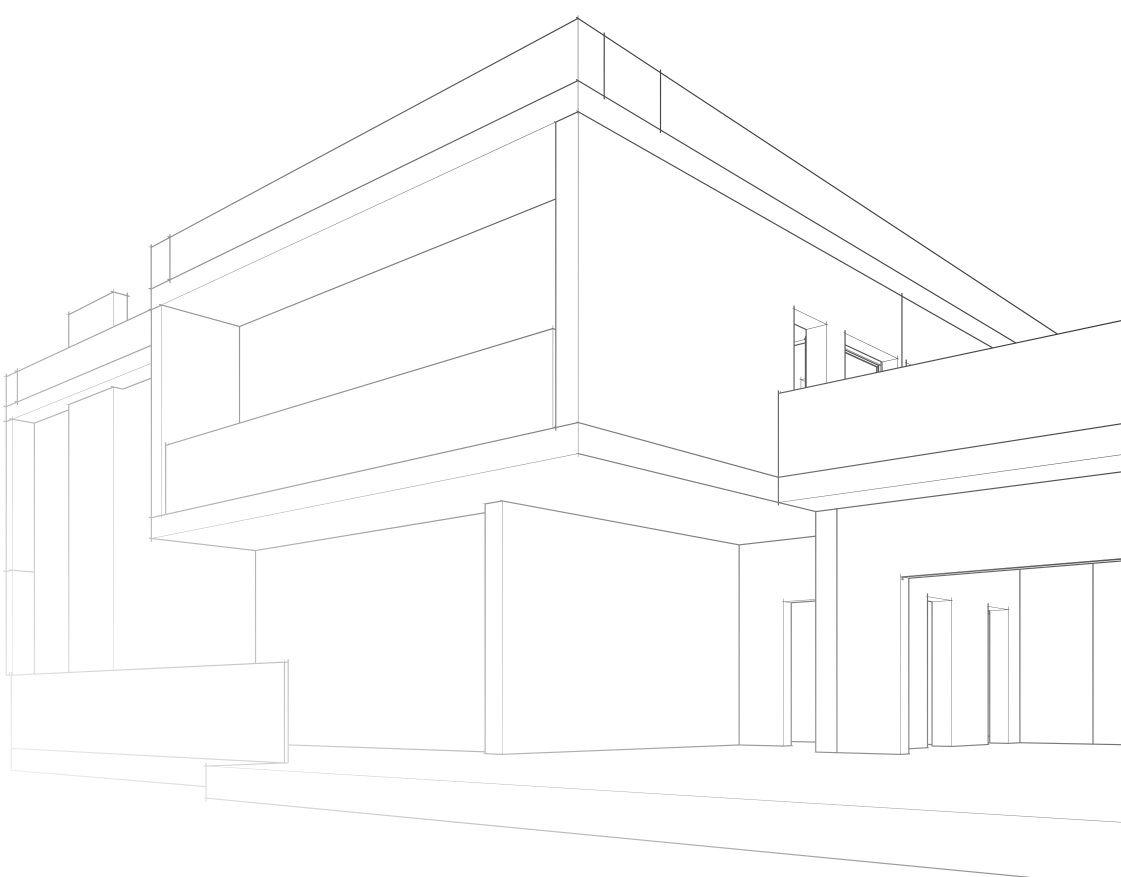
1. World Green Building Council : Beyond the Business Case 2. JLL: Net zero buildings - design, delivery and cost explored
3. New CBRE Analysis around Sustainability Certified Office Buildings in Continental Europe
4. Knight Frank : Greenest buildings command office rent premiums 5. WBCSD : The business case for circular buildings
6. UK GBC : Building the Case for Net Zero

Conversations about commercial real estate are increasingly peppered with the term “brown discount.” Essentially, buildings that fail to meet higher environmental standards will be considered less valuable. Signs of this trend are only just beginning to appear in the market, but the size and scale of brown discounts will rise rapidly in the coming years. This is also reflected in the evolving idea of a “best-in-class building” The focus is shifting from being in a prime location with sweeping views to championing net-zero carbon, promoting health and wellbeing, and being resilient to climate change.

> For example, Triodos Bank Headquarters in the Netherlands is a greenfield development perfectly embedded in the landscape. The building, streamlining sustainability through an energy-positive design and circularity of building materials, pledges a strong commitment to making spaces comfortable and productive. The multistakeholder community, from architects, designers, and engineers to the local government and environmental agencies, was continually engaged to ensure success.

Social value creation has moved to the center of conversation in business and financial circles. While environmental challenges and reaching net zero continue to be priority concerns, social issues, including poverty, inequality, workers welfare, and racial and gender equity, are receiving more attention. Covid-19 has been a wake-up call for the real estate industry. While the pandemic brought many risks and challenges, it also opened opportunities to think about how to reconnect development to local, place-based needs and priorities and to consider the industry's role in helping tackle social and spatial inequalities.

For example, the European Commission formed a working group to explore the creation of a social taxonomy to provide guidance on what it means to be socially sustainable. Global Real Estate Sustainability Benchmark (GRESB), the global ESG benchmark for real assets, has integrated health and well-being indicators into its assessments. There are increasing investment flows to affordable housing, care centers, health facilities, creative space, and place-based regeneration projects that focus on the needs of residents. The benefits of social responsibility are becoming increasingly apparent as organizations deal with intense competition for talent, and capital becomes scarce. Besides the potential additional revenues from sustainable assets and greater access to institutional capital, real estate companies also have an opportunity to future-proof their businesses at a time of financial upheaval by becoming the partner of choice for customers, communities, and governments that expect ESG issues to be addressed.



05

Crafting an ESG Strategy: A Guide for Saudi Developers

With ESG considerations rising steadily in the global real estate industry, in Saudi Arabia, the urgency and importance of ESG integration are even more pronounced, given the country's Vision 2030 and sustainability goals. This positions real estate developers in the Kingdom to lead in championing ESG initiatives—but there can be an action gap between recognizing this opportunity and working on it to the greatest advantage. The steps to a successful ESG implementation can be broken down as follows:

1. **Vision and Ambition:** Every effective ESG strategy begins with a clear vision and ambition. Developers must first assess the current state of ESG initiatives, benchmarking them against industry standards and best practices. This involves validating the existing sustainability vision and ambitions through a comprehensive review of achievements and a sustainability health check survey.

2. **Materiality Assessment and Scenario Analysis:** A key step in the strategy formulation is conducting a materiality assessment. Developers need to gain an understanding of material issues, identifying the highest impact topics specific to their operations. This involves a risk and opportunities taxonomy developed in collaboration with key internal leaders and employees as well as external stakeholders.

3. **Measures, Prioritization, and Benchmarking:** Post materiality assessment, developers must prioritize their ESG initiatives. They should develop a strategy targeting the highest impact issues and define quantifiable targets and measures to achieve the stipulated strategy. A gap analysis aids in understanding their current ESG performance versus the relevant benchmarks. Benchmarking involves evaluating peers and defining a firm's position on one of three critical areas: Lead, where the company pioneers industry standards; Compete, staying competitive with most peers; and Comply, ensuring adherence to regulations, standards, and ethics.

4. **Implementation and Flagship Initiatives:** With a strategy in place, developers should identify and roll out quick-win flagship initiatives. These are high-impact initiatives that not only align with business objectives but also have a solid business case supporting the overarching ESG narrative.

5. **Organizational Alignment and Governance:** ESG strategies are effective only when embedded organization-wide. Developers must focus on Key Performance Indicators (KPIs), establish clear governance structures, and ensure a holistic ESG agenda across all business units. This involves reviewing sustainability skills, systems, metrics, and ensuring a lean and efficient operating model.

6. **Reporting, Rating, and Ecosystem Management:** Transparency is paramount. Developers must report their ESG progress to all stakeholders. This not only generates buy-in from stakeholders both within and outside the organization but also actively shapes the ecosystem. Subsequently, obtaining an ESG rating based on the reported metrics is attractive. These ratings,

often from recognized global bodies, provide an external validation of the developer's ESG efforts. Further details are available later in the section.

7. **Continuous Improvement and Embedding:** Post the initial implementation and reporting, the focus shifts to improvement. Leveraging feedback from ratings, stakeholders, and internal reviews, developers should refine and enhance their ESG initiatives. It's an iterative process where the strategy evolves, ensuring it remains relevant, effective, and aligned with the broader organizational goals.

In short, ESG strategy development is not a one-off exercise but a continuous journey. Approached thoughtfully and ambitiously, it presents an opportunity for developers to contribute to the Kingdom's Vision 2030 and establish themselves as global leaders in sustainable, socially responsible real estate development.

Navigating ESG reporting and rating landscape

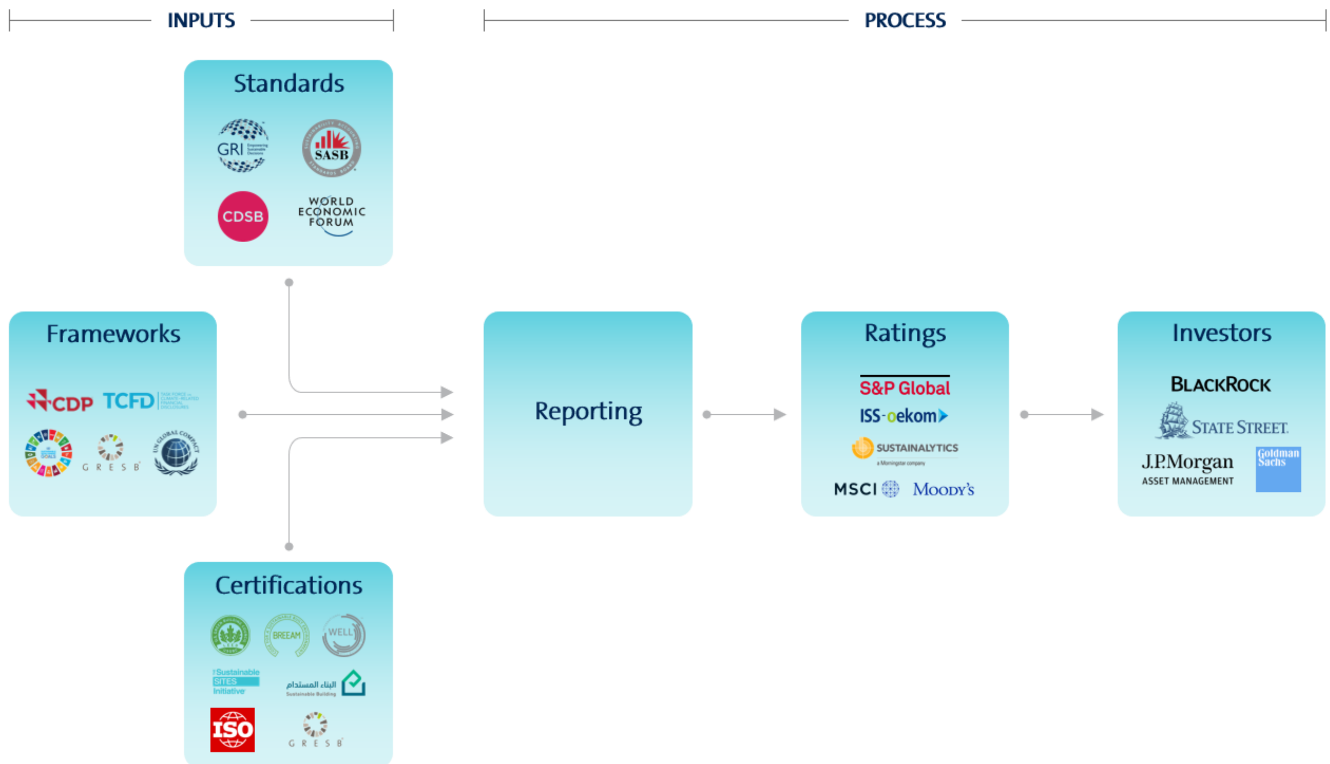
For developers aiming to create a robust ESG strategy, frameworks, standards, and certifications provide a unique opportunity to showcase their commitment. Understanding the distinctions and nuances between them is key to making informed choices and best positioning real estate developments to drive both economic and societal value. As shown in Exhibit 5:

Frameworks offer guiding principles that provide context to ESG information and a structured approach to ESG reporting. They may be used in conjunction with standards. The Taskforce on Climate-Related Financial Disclosures (TCFD) and CDP are examples of such frameworks.

Standards provide detailed criteria or metrics that dictate how specific ESG factors are to be reported. Standards make ESG frameworks actionable, offering granularity in reporting. Renowned standards in the ESG space include the Global Reporting Initiative (GRI) and Climate Disclosure Standards Board (CDSB).

Certifications are third-party designations awarded to projects or entities that meet particular ESG criteria. They serve as a testament to a project's or firm's commitment to sustainability. Examples include LEED, BREEAM, and WELL and Mostadam.

Exhibit 5: Three inputs feeding the ESG reporting process



Source: BCG

Factors to consider when selecting ESG tools

Relevance: The chosen ESG tool should resonate with the developer's operations, scale, and specific challenges faced in the local real estate sector.

Credibility: Developers should opt for globally recognized and trusted tools. This boosts stakeholder confidence and ensures alignment with international best practices.

Scope: Depending on the developer's focus areas (e.g., environmental conservation, social inclusivity), the tool should provide comprehensive coverage of those areas.

Flexibility: The real estate sector in Saudi Arabia is dynamic. Hence, the chosen ESG tool should offer flexibility to adapt to changing scenarios.

Stakeholder Acceptance: Given that ESG reporting is also about stakeholder communication, it's crucial to select tools that stakeholders (investors, regulators, community) recognize and value.

Integration: The tool should seamlessly integrate with existing operations, ensuring that ESG reporting isn't a cumbersome add-on but a core component of the business strategy.

06

The Growing Imperative for Stakeholder Realignment

In the evolving landscape of ESG, key stakeholders must embrace a comprehensive approach that addresses crucial environmental, social, and governance dimensions. This realignment is increasingly essential, with stakeholders recognizing multifaceted benefits.

Owners and investors are urged to adopt a more holistic view of risk, considering not only technical complexity and uncertainty but also the social impact of their investments. This shift entails supporting projects that promote community well-being and demonstrate a commitment to ethical governance, thereby enhancing their attractiveness and commanding rent premiums.

Developers need to consider all aspects of their value chain and lifecycle, from ensuring fair labor practices for workers to promoting diversity and inclusion in their offices. They should focus on sustainable sourcing, energy-efficient construction, and the long-term environmental and community impact of their projects, committing to urban sustainability and a greener future.

Advisors, architects, and engineers must broaden their focus to include social inclusivity and accessibility in their designs. By integrating these elements, they can provide differentiated offerings that cater to a diverse range of needs, ensuring equitable space utilization. This approach not only elevates their services but also aligns with a growing demand for socially responsible and transparent practices.

Contractors are encouraged to develop capabilities in using materials and methods that are low-carbon, socially responsible, and ethically sourced. This commitment to sustainable and fair-trade practices can enhance their value proposition and potentially increase margins through a reputation for responsible governance. Contractors should also emphasize worker welfare, aligning labor practices with their commitment to sustainability and social responsibility.

Material suppliers and retailers are poised to play a pivotal role by investing in the sustainable production of building materials and adopting fair labor practices. This strategy positions them as preferred suppliers in a market increasingly conscious of both environmental and social impacts.

Authorities and governments must collaborate with the industry to co-create codes and regulations that not only support innovative environmental solutions but also promote social equity and transparent governance. This partnership can accelerate the adoption of new materials and technologies while ensuring that national targets encompass ESG objectives.

In sum, a holistic approach to stakeholder realignment in ESG is no longer optional but a growing imperative. This approach calls for an integrated focus on environmental sustainability, social responsibility, and robust governance to meet the complex challenges of our time.

07

Conclusion: The Foundation Must Be Laid Now

The real estate sector is at a critical juncture, facing a substantial challenge to meet the SDGs[22] by 2030. The OECD[23] highlights a $3.7 trillion annual financing gap, exacerbated by the COVID-19 pandemic[24]. Yet, this challenge presents a unique value-creation opportunity across the ESG spectrum. Incorporating ESG considerations offers avenues for long-term sustainable growth. Environmentally, investments in green infrastructure can yield cost savings and resilience. Socially, there is a rising demand for developments that promote community well-being and equity. On the governance front, transparency and ethical practices are increasingly expected.

The real estate sector, therefore, must not only aim for financial returns but also consider its societal and environmental impact. This shift towards a holistic ESG approach can attract new investors and partnerships, essential for both meeting the SDGs and ensuring long-term sector viability.

The SDG goals addressing pressing ESG issues can only be achieved if stakeholders from developed and emerging markets, including governments, investors, developers, multilateral organizations, and local communities, collaborate to advance them expeditiously. Those waiting to lean into these structural changes will have to play significant catch-up in years to come. In some cases, the decisions to act could be taken out of their hands, with access to lending increasingly depending on an ESG plan. The real estate sector, in many ways, builds the future of communities and societies. What world will we build next?

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[22] The Sustainable Development Goals (SDGs) are a collection of seventeen interlinked objectives designed to serve as a shared blueprint for peace and prosperity for people and the planet, now and into the future. The SDGs were adopted by the United nations in 2015

[23] The Organisation for Economic Co-operation and Development (OECD) is an intergovernmental organisation with 38 member countries, founded in 1961 to stimulate economic progress and world trade

[24] UN Principles for Responsible Investment: Closing the funding gap

Authors

Boston Consulting Group

Benjamin Deschietere

Managing Director & Partner

Dubai

Peter Jameson

Managing Director & Partner

Copenhagen

Shelly Trench

Managing Director & Partner

Dubai

Edoardo Geraci

Partner

Dubai

Nalini Kothari

Project Leader

Dubai

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