



Don't Get Left Behind: Seizing the ESG Opportunity in Real Estate

Multifamily and commercial real estate organizations must monitor and improve their ESG strategy under growing pressure.

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Owners and managers of residential and commercial real estate take note: The real estate landscape is rapidly shifting to obligate that **Environmental, Social, and Governance (ESG)** considerations be incorporated into everyday operations. Not so long ago, owners of apartments, office buildings, and warehouses could distinguish themselves with even modest nods to the environmental performance of their buildings. Pursuing a green building badge, such as a LEED (Leadership in Energy and Environmental Design) certification from the U.S. Green Building Council — the first prominent and still the world's most widely used green building rating system — was often enough to demonstrate green credentials.

No longer. Managers face growing pressure to tangibly act on sustainability and reduce their carbon footprint while also providing broad ESG disclosures. This is particularly true within the United States and European markets. Though not mandated by law or regulation, competitive pressures of the market increasingly drive action on sustainability, making informal ESG expectations the new standard.

Tenant Demands

Building tenants — whether apartment residents, office workers, or retail clerks — are demanding safer, healthier homes and workplaces. These demands have been rising over the past two decades but have suddenly taken on greater urgency since the Covid pandemic began in 2020. It turns out that many of the system upgrades required to make buildings healthier are precisely the kinds of features needed to attain environmental certifications.



In this way, sustainability improvements yield two benefits: Tenants feel safer and better about their workplace or home. Tenants increasingly use their real estate choices to signal their commitment to sustainability and social responsibility. By aligning with ESG-committed organizations, tenants benefit from both attracting customers who share their brand values and retaining top talent in a competitive labor market.

Finally, tenants appreciate that greener buildings often offer lower operating costs due to greater energy efficiency and water conservation. That's important for tenants who pay their own utility bills. The overall occupancy cost of these buildings may not be lower because the greenest buildings typically command higher rents. Still, the tradeoff with lower operating costs makes the rent more affordable.

The specific actions and building features preferred by tenants vary by market and building type, as well as the unique operations of individual firms. Rather than guessing about these needs, owners and managers can accurately gauge local market and tenant priorities through tenant surveys, as we detail below, highlighting the proactive steps managers can take to boost their ESG awareness and performance.

Investor Preferences

It's not only tenants who want green buildings. Investors are also seeking out ESG-compliant investments and service providers while pressuring building owners and managers to step up their environmental and social commitments. A growing share of investors are millennials who value sustainability and social responsibility more than earlier generations.

Moreover, investors of all ages are becoming more aware of the long-term risks and opportunities associated with ESG factors. Most notably, the increasing frequency and severity of extreme weather events are prompting investors to seek resilient buildings that can withstand these risks.

Enhancing resilience for both multifamily and commercial buildings can boost property values by mitigating the risk of climate-related damage. Resilient buildings are better equipped to withstand natural disasters and extreme weather events like flooding, fires, and earthquakes. This reduces the risk of significant damage and the associated repair costs, which can be substantial. Insurance companies often view resilient buildings as having lower risk, potentially leading to lower insurance premiums and ongoing savings for property owners across industries.



Rising energy and water costs incentivize managers to adopt resource-efficient building practices, particularly in regions where resources like water are becoming more scarce. Technological innovations are facilitating these investments, making it easier and more affordable to implement ESG solutions in buildings, such as smart building technologies and renewable energy sources.

Beyond climate change, social unrest and poor governance can also reduce the value of real estate assets. Conversely, embracing ESG can enhance resilience and create value. As noted above, energy-efficient buildings tend to have lower operating and maintenance costs, potentially increasing net returns on buildings. Plus, buildings with high ESG scores can command higher values due to greater tenant demand and rents, positively impacting your bottom line.



Increasing Formal and Informal Regulation

If the voluntary “carrots” of competitive market pressures and enhanced potential returns are insufficient to motivate owners and managers, governments and other regulatory bodies increasingly provide the “sticks” to compel ESG compliance. Regulatory pressure is increasing globally, requiring companies to disclose and manage their ESG risks and impacts. This is driving real estate companies to adopt ESG practices to avoid potential fines and reputational damage.

The [Securities and Exchange Commission \(SEC\)](#) proposed [ESG disclosure regulations](#) in May 2022 “to promote consistent, comparable, and reliable information for investors concerning incorporation of . . . ESG factors.” To be sure, not all property owners would be subject to these rules. The regulations would apply only to “registered investment advisers, advisers exempt from registration, registered investment companies, and business development companies.” Thus, Real Estate Investment Trusts (REITs) and most major institutional investment companies would be covered, but private real estate operating companies would not. Nonetheless, these disclosure requirements could set de facto industry standards due to the dominant market share of the covered entities, as investors would come to expect them from all property firms.

These pressures stem not only from regulatory bodies but also from industry groups spearheading reporting guidelines and fostering a culture of peer accountability. To ensure the competitiveness of their portfolios, real estate managers must prioritize ESG adoption and diligently implement best practices.



Among the most prominent initiatives are the new Reporting Standards sponsored by the National Council of Real Estate Investment Fiduciaries (NCREIF) and the Pension Real Estate Association (PREA). NCREIF and PREA are the two primary industry groups for institutional investors and high-net-worth investors. Together, these organizations represent companies with hundreds of billions of dollars in property investment. Their assets span both commercial buildings (like offices, warehouses, and hotels) and residential (apartments and single-family rentals). Due to their size and financial heft, their actions help establish best practices for real estate investment reporting.

NCREIF and PREA have made significant strides in advancing Environmental, Social, and Governance (ESG) reporting within the sector. The two groups joined forces to launch the [ESG Principles of Reporting for Private Real Estate](#) handbook in 2021. This resource outlines recommended practices for real estate investment managers to report on their ESG impacts, actions, and Diversity, Equity, and Inclusion (DEI) efforts.

While adherence to these guidelines technically remains voluntary, as with LEED and other industry initiatives, widespread adoption is anticipated due to competitive pressures from peers and clients to demonstrate their commitment to ESG principles. Further bolstering adoption is NCREIF/PREA's recent release of a comprehensive set of [ESG Key Performance Indicators](#) (KPIs). These user-friendly, template-based assessments, available on the Reporting Standards website, provide a clear framework for measuring and reporting ESG performance.

The [National Multifamily Housing Council \(NMHC\)](#), the leading industry group focused on the apartment sector, has yet to promulgate comparable standards expressly for this property type. Still, the group is aligned with ESG principles and advocates and provides technical support for policies like greener building codes, building sustainability disclosures, and workplace and community diversity. For example, in 2023, the NMHC published a [guide for advancing housing equity and opportunity in the multifamily industry](#). Again, while these guides and initiatives are entirely voluntary by Council members, their adoption by industry groups and leading investment encourages all firms to adopt similar policies.





Sensible but Not Simple

Despite the growing momentum, several factors still limit the widespread adoption of ESG principles in multifamily and commercial real estate. In particular, some of these measures are costly. Implementing robust ESG practices can require significant upfront investments in technology, infrastructure, and personnel, which can be especially daunting for smaller companies. This complexity can deter companies with limited resources.

Then, there is the lack of clear standards and metrics. Despite the preceding industry initiatives, the ESG landscape is still evolving, and there are few standardized frameworks and metrics for measuring ESG performance. And while regulations are increasing, they vary across countries and regions. This uncertainty can make it difficult for multinational companies to develop a consistent and comprehensive ESG strategy.

This ambiguity can make it difficult for companies to set clear goals and track progress. Compounding the challenge is the difficulty of collecting and managing accurate ESG data, which can be complex and time-consuming. Companies may lack the resources or expertise to analyze and report their ESG performance effectively. The demand for skilled professionals who can help companies implement and manage their ESG initiatives is growing faster than the supply, creating additional challenges for companies seeking to improve their ESG performance.

Taking the Necessary Steps

Overcoming these challenges requires a multi-pronged approach, including increased investment, collaboration, standardization, and leadership commitment. By addressing these challenges, real estate companies can unlock the potential of ESG to create long-term value for themselves and society.

Regular employee and tenant surveys can be vital in this regard, helping property managers and owners engage with their stakeholders and assess the impact of their efforts. These surveys help managers understand what sustainability practices might work best in their buildings and communities, thereby helping secure tenant support for sustainability programs. Kingsley-Surveys is a trusted industry partner and has been assisting CRE clients in measuring stakeholder engagement for 35 years.

Contact our CRE experts to discuss how KingsleySurveys can support your ESG strategy.

