

# It's all about understanding the ESG performance of assets

Europe is set to become the first continent to operate on a climate-neutral basis by 2050. This goal of greenhouse gas neutrality is enshrined in the EU Taxonomy. A reduction of 55% in greenhouse gas emissions is to be achieved as early as 2030.

Thus, the race to net-zero emissions has begun and decarbonising the built environment – which accounts for 37% of global CO2 emissions – is critical if businesses and policymakers are to meet the commitments laid out in the Paris Agreement by 2050. According to the UN Environment Programme, the next five years will be about broadly adopting transformational approaches and implementing incentives and regulations that provide solutions at scale.

## ESG AWARENESS IN THE REAL ESTATE SECTOR IS RISING

In an early 2022 pan-European survey of 250 corporate pension fund managers in the UK, Germany, France, Spain and Italy with assets worth a total of €402 billion, Deepki revealed that a massive shift is taking place in the building sector – assets that do not meet ESG requirements will be redeveloped or sold.

The study shows there is a growing awareness that green real estate will generate better returns over the next five years. Whereas brown discounting – discounts on property value due to poor ESG compliance or a lack of modernisation – is perceived as a growing problem.

A total of 40% of the European pension fund managers surveyed said they had experienced depreciation of 21% to 30%

Only by gaining a deeper and more systematic understanding of its environmental impact can real estate take effective action to realise its transformation.

By Vincent Bryant

in the past 12 months due to brown discounting. Almost two-thirds (62%) of European pension fund managers anticipate that the impact of brown discounting will worsen over the next three years. Meanwhile, four-fifths (79%) expect commercial real estate with good ESG characteristics to offer better returns, or “green value” over the next five years.

Looking at the status quo, 64% of respondents said that only 21% to 30% of their fund’s commercial real estate assets have a good ESG rating. Another 19% said the number was between 11% and 20%. Almost a quarter (23%) expect the majority of their commercial real estate assets to be net zero in six to ten years, and another 15% expect that to be the case in 11 to 15 years. But 46% of respondents are more optimistic, expecting to reach this milestone in one to four years.

## ESG INDEX

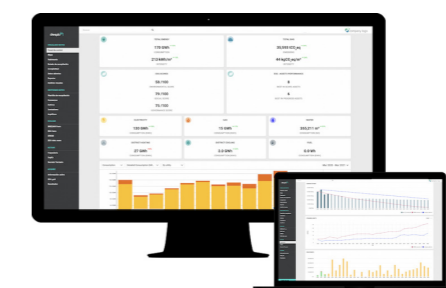
Today, the role of ESG is omnipresent in the real estate sector. Complete and relevant ESG data is key to improving energy efficiency. Collecting, tracking and analysing data empowers the market and asset owners to assess the performance of their portfolio. The risk of brown discounting of assets that do not comply with ESG regulations is significant.

With the introduction of the EU Taxonomy, it has become necessary for real estate owners to understand the energy consumption of their portfolios, and to compare this with the sector’s performance as a whole. To address this need, Deepki, together with the l’Institut de l’Epargne

‘By collecting data from 41 countries, we are able to obtain uniform results that are truly comparable at an international level, thanks to the use of a common methodology.’



Vincent Bryant, Deepki



▲ Deepki's platform collects critical ESG data

Immobilière et Foncière (IEIF), have released their ESG Index, a benchmark for the energy performance of European real estate. According to the criteria of the EU Taxonomy, buildings in the top 15% of the national or regional building stock in terms of energy performance will be considered sustainable investments and serve as a benchmark for the entire sector.

The ESG Index is based on a uniform methodology for measuring the energy performance of properties. It provides owners and managers of property portfolios with a clear view of the sector’s environmental performance, and a reference against which they can measure their own assets.

More than 400,000 real estate projects in 41 countries are being monitored, providing access to reliable and factual data. From this wealth of data on a wide range of building types across Europe, a

representative sample has been drawn that provides a benchmark of the European market, making the data comparable on a national and international level.

The ESG Index lists the top 15% and top 30% of properties in terms of primary energy consumption. The Index provides these values by country and asset type. The property types covered by the ESG Index

include offices, retail, housing, logistics, healthcare, and hotels. This also allows for comparison within individual sectors, providing users with even more in-depth insights into the energy performance of a given sector. Currently the Index exists for the UK, France, Italy, Germany, Spain, Benelux, and Europe as a whole.

The benchmark is another important step towards real estate’s net-zero goal. Especially in the context of the EU Taxonomy, it is beneficial for asset owners to have valid, reliable and comparable data. Such a benchmark has been lacking until now, and it is precisely this gap that the ESG Index has filled.

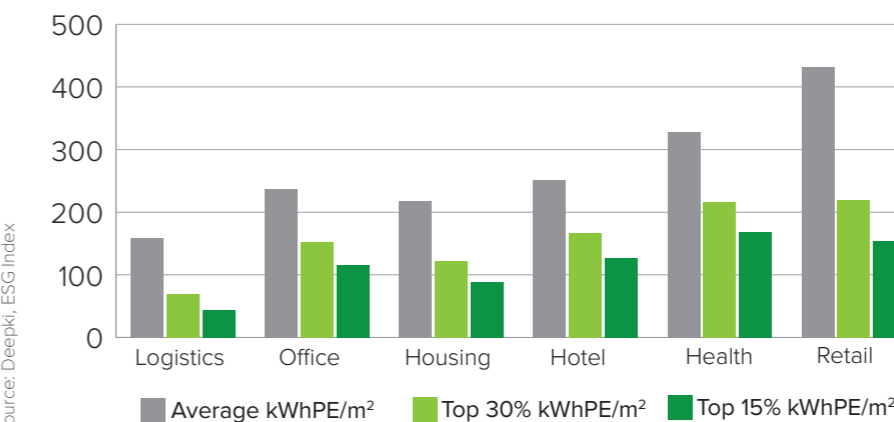
## THE JOURNEY CONTINUES

But work on decarbonising the real estate industry is far from complete. A first step has been taken and we hope to foster a dialogue on the energy performance of real estate between stakeholders at national and European level and to have created a useful benchmark for the industry. We are now in the process of sharing our knowledge and insights with various partners in France, in Germany and in the UK.

We want to support organisations in aligning their energy performance with the metrics from the benchmark. Thus, we can help them move closer to the goal of carbon neutrality by 2050. To continue our work and research, we are also always looking for new partners who want to share their expertise with us and help make real estate more sustainable. ■

Vincent Bryant is chief executive and co-founder of ESG data intelligence specialist Deepki

## Annual prime energy consumption in Europe



Source: Deepki, ESG Index