maples teesdale

An appetite for ESG
Putting your money where your mouth is

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Maples Teesdale's second annual and first in the current series of two ESG webinars explored the financial aspects of environmental, social, and governance (ESG) issues.

Moderated by Ana Klein, Commercial Property Partner and head of ESG and Rohan Campbell, Banking and Finance Partner, both from Maples Teesdale, the panel featured Arron Taggart, Head of UK Real Estate Investment at Cheyne Capital, Lora Brill, Head of Responsibility & ESG at Orchard Street Investment Management and Gabriele Magotti, MD and Head of Asset Management at H.I.G. Realty Partners Europe.

Below are some of the highlights from ESG – putting your money where your mouth is, and to listen to a full recording please click here.

ESG has become a significant factor to lenders' business activities and decision-making processes

All of the panellists agreed that there has been a significant shift in focus towards ESG, particularly in the last two to three years, and that it is now at the forefront of their investment decision-making.

Investment Committees will probe whether ESG has been considered and will expect to see this demonstrated in investment proposals. Equally, investors are increasingly asking about ESG.

Players in the market are at different stages of their ESG journey both in the UK and elsewhere. Gabriele Magotti shared his experience that some European markets are more advanced than others; for example, North East Europe has a greater supply of ESG products at the moment than Southern Europe.

The influence of ESG on capital costs

Arron Taggart observed that pursuing ESG goals currently means greater capital cost but that is expected to change. For example, lenders have a clear appetite for sustainability-linked products and we have seen an increase in green lending and ESG products, which will push the cost of capital down. If you need debt for an investment, you must have a clear strategy on ESG to get lenders' attention and receive funding. There is also a drive from players in the market to have a positive influence on society and the economy. Cheyne, for example, is "moving to actions rather than words" by using capital to influence and guide investors and borrowers towards ESG goals.

Gabriele Magotti highlighted how he is not yet seeing a difference in pricing of debt between retro-fitting sites and new developments. However, ESG compliant funds (which naturally lend themselves to retro-fitting rather than new developments) should start to see cheaper debt compared with non-compliant funds as ESG appetite continues to grow.

As a mainly unleveraged fund, Orchard Street is focused on retro-fitting rather than new developments. Orchard Street are working to strike the right balance in managing the tension between funding the capital costs of meeting ESG objectives while still achieving the desired returns for their investors.

Occupiers want buildings with good ESG credentials

Maples Teesdale is increasingly hearing about occupiers who will not take space in buildings with poor sustainability credentials. According to Gabriele Magotti, the office sector is leading the way. He is seeing green buildings being leased far quicker, because tenants believe that occupying a green building is good for their reputation.

There have also been signs of a positive response in the industrial sector, where Orchard Street has experienced a high demand from SME tenants for environmentally friendly spaces. Lora Brill explained that in her view, retail is still a mixed bag. Although boards have strong ESG initiatives, these are not always trickling down the business to the real estate teams who are agreeing the deals.

Arron Taggart was keen to mention that although there is a lot of focus on the "E", we must not forget the "S" and the "G". He discussed the impact fund at Cheyne which is investing in BTR in Manchester. It will allocate 35% to key-worker housing with lower rents, set by reference to likely household income. A key aspect in the residential market is to foster social cohesion through shared use of amenities in buildings while still ensuring access to affordable housing. The other panellists agreed that this must be the better approach.

Measuring value and success of ESG activities is not easy

All of the speakers agreed that measuring value and success is very complex and, as we are relatively early into the ESG journey, a lot of measuring will be done in hindsight. Lora Brill believes that good ESG can be achieved by good real estate management. She also discussed how you can measure the "E" elements by carrying out debriefs after each deal and monitoring ESG activities and costs, building up a bank of experience.

The speakers all felt that they are further ahead in terms of "E", for example by scientifically measuring carbon footprint throughout the operation and use of an asset. Gabriele Magotti discussed a more practical approach to "S" and "G", for example encouraging diversity at board and employee level and helping communities.

Lora Brill confirmed that there are crossovers in KPIs and different standards in the real estate market but she anticipates a shift towards a more standardised set of KPIs and benchmarks. However, she acknowledged that there will still need to be some flexibility as the ever-increasing number of ESG funds will no doubt seek to pursue different and nuanced goals. This was a view echoed by Gabriele Magotti.

Net zero carbon and air quality are here to stay

When asked to pick an area of ESG to focus on over the next three years, the panellists all agreed that the key goals are going to be achieving net zero carbon and better air quality, alongside a continued focus on social impact. What better way to boost your wellbeing than knowing you are helping to change people's lives?

It is clear that ESG is here to stay - factors such as the current higher costs of capital, differing KPIs and difficulty measuring the value and success of ESG activities are all part of the ESG journey. Arron Taggart summed it up rather nicely: it is not easy being a pioneer but you will regret it if you don't embrace ESG.