Investing in tomorrow

ESG – A collaborative approach

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Foreword

In this, the third in our series of 'Investing in tomorrow' reports, we continue our review of the varied opportunities and practical challenges facing organisations looking to address Environmental, Social and Governance (ESG) issues.

ESG considerations have become increasingly important decision-making criteria for organisations and are a means to winning the trust of stakeholders. A positive or strong ESG profile is attractive to potential investors, lenders, customers and employees, and it helps to build the brand of the organisation. A negative or weak ESG profile can be a warning signal, raising questions about the organisation's long-term sustainability.

Much has been written and discussed at a high level about ESG – with national and international targets, commitments, standards, measurements and scores. But in our series of reports on this subject, we are keen to bring the conversation down to eye level and look at the practical challenges faced by our clients in specific sectors and situations.

Every organisation is unique in terms of its ESG profile and has different ESG priorities. That said, no organisation is alone. ESG ambitions are more likely to be accelerated via a joined up, collaborative approach. For example, this might be vertical, with organisations along a supply chain working together to find ways to meet their mutual ESG aims. More generally, it is about sharing ideas, seeing what progress can be made on a practical level and what lessons can be taken from others on similar ESG journeys.

This collection of articles is aimed at highlighting some of that progress and learnings. I hope you enjoy it.

Stephen Porter
Partner & Head of Corporate Division – Shoosmiths

The future of construction

- *How are modern methods of construction supporting ESG objectives?*
- *What are the barriers and limitations?*

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Contributors:

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Chairman – Land Promoters and Developers Foundation

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The future of construction

The vast majority of publicly listed companies now report their performance against ESG standards. As a result, these companies increasingly want to able to invest in opportunities that promote their ESG credentials.

Property funds are keen to improve their ESG credentials by investing in modern, environmentally friendly buildings, which, in turn, attract better quality tenants who themselves want to demonstrate their ESG credentials, driving increased property values and an improved return on investment – a 'win-win'.

The UK construction industry therefore needs to do its bit to embrace change and move with the ESG agenda. The UK Green Building Council says that around 10% of the UK's total CO2 emissions are directly associated with construction. Other bodies put this figure even higher. Whatever the true figure, the UK's construction industry has an important role to play in the government's net zero ambitions.

Modern methods of construction

Modern methods of construction (MMC) are an essential ingredient in reducing our built environment's impact on climate change as it has a number of advantages over traditional construction methods:

- Waste is a huge issue for the construction industry, however MMC factories are much more efficient in eliminating waste. It has been estimated that MMC construction reduces material waste by 45% compared to traditional construction.
- Some commentators have estimated that MMC construction sites have 40% less HGV movements compared to traditional construction sites – this is through a significant reduction in the amount of materials that need to be delivered to site.
- MMC factories can store large amounts of materials, thus reducing the number of deliveries compared to a construction site where space for storage may be limited.
- Workers at MMC factories will generally work locally with relatively short commute times. As those workers are travelling to the same place every day, they are able to car share, use public transport or even cycle or walk to work. Traditional construction workers in contrast will often travel large distances to work on different construction sites.
- The quality control associated with a factory process naturally produces greater levels of airtightness and improved building performance. Faithful + Gould estimates that volumetric buildings achieve airtightness levels that are at least threefold better than those built using traditional construction methods.
- MMC construction also contributes to better social conditions. Clean modern factories generally offer a safer and better environment in which to work. They are also likely to have a much more diverse workforce.

The UK construction industry is facing a skills and productivity crisis, but upscaling the use of MMC offers an opportunity to deliver the thousands of additional new homes needed than just relying solely on traditional construction.

Paul Brocklehurst, chairman of the Land Promoters and Developers Foundation, agrees. He said: "MMC can play a big part in driving ESG. In five to 10 years, we can expect to have a reasonably high percentage of new homes being built with MMC, but we need more factories and education streams to increase the skilled workforce in this area."

> "Around 10% of the UK's total CO2 emissions are directly associated with construction."

Breaking down the barriers

Barriers, therefore, continue to exist to the widespread adoption of MMC – not least in the limited choice of housing design, which goes against planning policy encouraging greater diversity of house styles. However, the ESG agenda is proving to be a powerful force in finally helping break down these barriers. There is a sense that the market is starting to embrace MMC, with many contractors and funds setting up their own MMC factories.

Will the 'Twenties' be the decade that MMC finally comes of age? Time will tell.

> “MMC construction reduces material waste by 45% compared to traditional construction.”

Biodiversity and the impact on housing

- *How are developers tackling biodiversity?*
- *What are the implications for planning?*

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Biodiversity and the impact on housing

In recent years, there have been huge biodiversity losses globally and, at a macro level, it is now on a par with climate change as one of the biggest challenges facing the future of life on earth. The UK's prime minister Boris Johnson recently stated that "tackling climate change and biodiversity loss" is the government's "number one international priority". In many ways, they go hand in hand with one another.

But how is this relevant to housebuilding and what can we do about it?

At a very basic level, we all rely upon biodiversity – without plants, there would be no oxygen, we rely on bees and other species for pollination, and trees are very effective at removing carbon dioxide from the atmosphere. It is more than that though – as Jeremy Clarkson noted in his recent TV show, Clarkson's Farm, if you take a drive in the countryside you have far fewer dead insects on the windscreen than even 20 years ago; you may feel that is good thing, but it is a simple marker that biodiversity is being threatened.

"Every time we dig up a field, clear marshes, cut down trees and build houses in their place, we risk damage to biodiversity."

Therefore, every time we dig up a field, clear marshes, cut down trees and build houses in their place, we risk damage to biodiversity – urbanisation is considered to be one of the key causes of species decline in the UK. The government's reaction has been to introduce planning legislation, so that the impact of development on biodiversity is considered at the earliest stages of the process. Put bluntly, in the future, unless housebuilders can show that they have taken steps to provide prescribed net gains for biodiversity, they will not get planning applications approved.

The Environment Act 2021 will also require all planning permissions in England (subject to exemptions) to be granted subject to a new general pre-commencement condition that demands approval of a biodiversity gain plan. This plan can only be approved by the local planning authority if the biodiversity value attributable to a development exceeds the pre-development biodiversity value of the onsite habitat by 10% – that is, the biodiversity metrics pre-build must be exceeded upon completion by not less than 10%. The government is currently consulting on the implementation of these requirements, which are anticipated to come into effect in November 2023. In this way, biodiversity is being addressed, through planning, as a cost of entry to residential – and other – development.

Impact of housing development

Housing development impacts on biodiversity in a number of ways. The obvious is on-site disturbance – developments that have been delayed due to newts, orchids, badgers or bats, for example. However, less obviously, development may impact off-site habitats due to disturbance, displacement and air and water pollution. For example, noise and light can impact feeding and breeding behaviours, and cause ecological displacement, and land clearance for development can upset natural flood defences, as well as disrupting habitats for wild birds and animals.

The intention is that planners and housebuilders work together to minimise the impact of their developments through good design and thoughtful layouts. The National Planning Policy Framework already requires a proactive approach to mitigating climate change and the effect of a development upon biodiversity. Prior to submitting a planning application, developers should be screening for the likely impacts of their works on biodiversity and determining the need for a Biodiversity Net Gain assessment.

Defra has put in place a Net Gain Biodiversity Metric Calculator which identifies the scale of impact of the development and provides a gauge for the measures which will need to be taken to secure a net gain in the final development. The calculator informs housebuilders how much 'credit' their designs provide, and this enables them to budget accordingly.

Not only will biodiversity become a cost of entry to the development process through planning, but it will also be an ongoing cost of operation following development delivery – and it may even represent an opportunity to differentiate developments in a positive way, enhancing value for developers.

Shoosmiths has been heavily involved in helping clients address the nitrate neutrality issues in the south of England.

This work has entailed setting up two of the first privately run nitrate neutrality schemes in the UK – at Meon Springs (in South Downs National Park) and at Roke Manor Farm (Test Valley).

These schemes are now fully operating and selling nitrate credit to developers to mitigate the impact of residential development. We have also acted for developer clients facing their own water neutrality issues, including in the purchase of credits from local authorities.

"Who among us would not prefer to have views over a wildflower meadow to a concrete car park?"

Steps to be taken

On a practical level, steps which can be taken include:

- Installing hedgehog highways to enable them to move safely around a development
- Providing bat boxes and designing bat friendly lighting
- The use of sustainable drainage systems
- Introduce more soft landscaping
- Retain, reinstate or establish hedgerows, instead of using fencing

Developers will be expected to arrange for the monitoring of existing, restored or newly created habitats and landscaping and to compensate for loss of features by re-creating them, restoring habitats and creating buffers to reduce the impact on neighbouring areas. Net gain measures will need to be maintained for at least 30 years after establishment, but ideally the measures should be permanent.

One direct result of the Covid pandemic and the resulting lockdown has been more of a demand from the public for green space and nature-rich environments. Therefore, in protecting biodiversity, not only will housebuilders be more likely to have a smooth journey through the planning process, but they will also create a more pleasant environment for consumers to live in, which in turn will have a positive economic impact. With the benefit of good publicity, the steps taken by housebuilders to offset damage to the environment could be turned into an effective marketing tool. After all, who among us would not prefer to have views over a wildflower meadow to a concrete car park, or wake up to the sound of birdsong rather than the noise of cars rushing by?

An opportunity?

Ignoring biodiversity is not an option but the actions taken do not need to be particularly costly or have a huge impact on plot numbers. Indeed, there are potential costs savings. Sustainable drainage systems (SuDS) for example, often have lower installation and maintenance costs than hard engineered solutions. Green space with integrated SuDS would help to reduce flood risk, provide clean run-off water, contribute to carbon capture from the atmosphere and filter pollutants. Additionally, this provides a much more attractive feature than traditional drainage solutions.

This new legislation also provides opportunities. If sufficient credits cannot be achieved within the boundaries of a development there is the ability to go offsite, and to trade credits owned by another landowner or developer. As biodiversity net gain becomes mandatory, it is possible that, for example, a developer which has set aside a large area as a Suitable Alternative Natural Greenspace (SANG) could sell off areas of the SANG to assist smaller developments to comply with the requirements in a way that might not otherwise be possible due to the size and/or location of the development.

Biodiversity net gain cannot be ignored. The earlier in the process that it is addressed the easier and less costly it will be. Indeed, those in the industry who embrace the legislation at the earliest opportunity will be better able to exploit the benefits associated with the new regime.

> "The actions taken do not need to be particularly costly or have a huge impact on plot numbers."

G is for good governance

- *How do businesses identify potential governance weaknesses?*
- *What are the red flags?*

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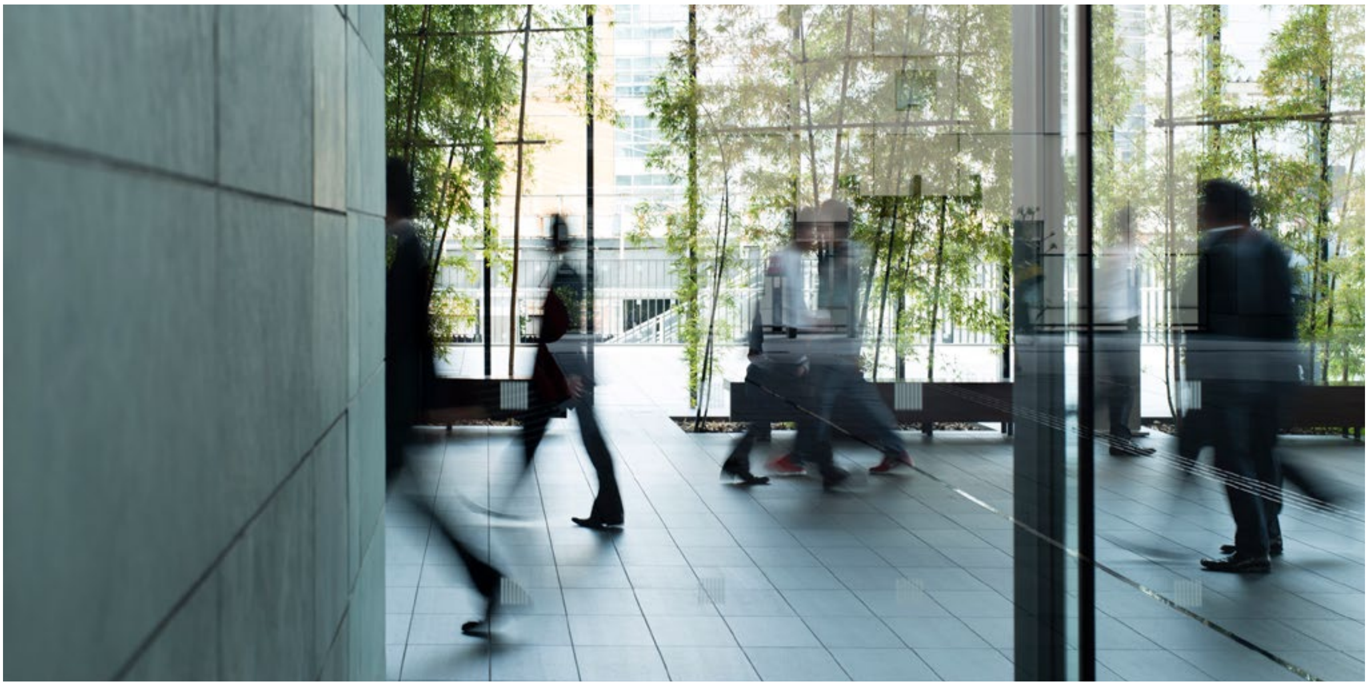
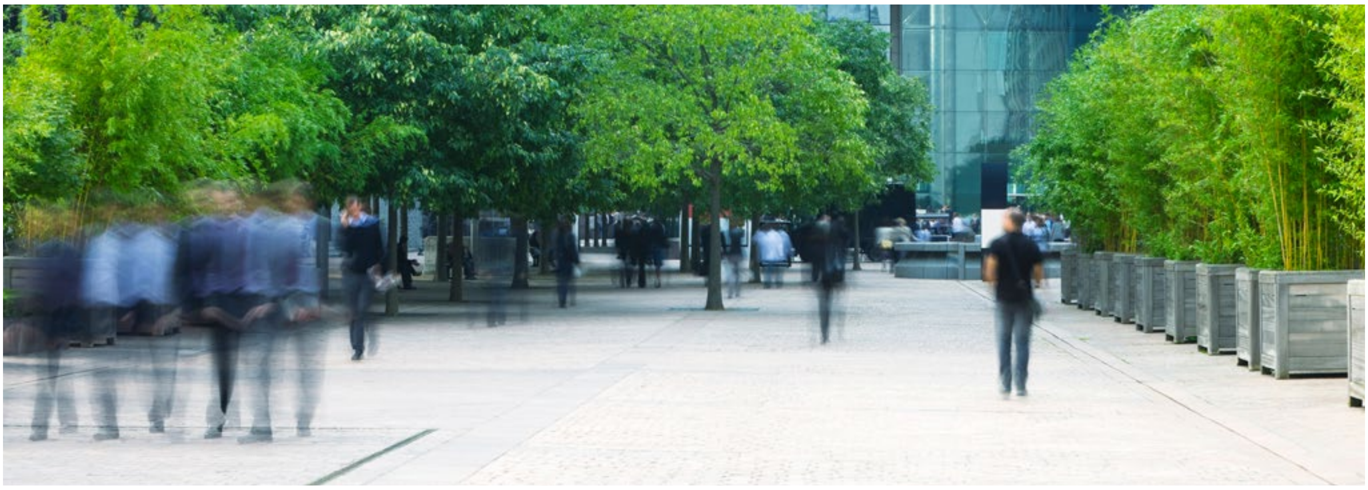
G is for good governance

There is no question that ESG considerations are towards – if not at – the top of the agenda for many organisations with conversations around corporate direction, culture and strategy all invariably involving ESG considerations. And whilst each element of ESG requires diligent attention, there is no doubting the fundamental importance of good governance. Indeed, arguably, when considering recent corporate failures and scandals, weak governance was a common feature in each one.

At the heart of good governance is a desire to create the right corporate culture. Too often problems (either financial or non-financial) occur because organisations get the culture part of their business wrong. Typical red flags include:

- One or two dominant executives who drive the strategy, with little challenge from non-executive directors and/or internal audit and/or external auditors.
- Lack of technical experience on the board (e.g., a lack of risk and/or compliance expertise).
- An unhealthy focus on profit, remuneration and targets, which drives particular behaviours.
- A failure to put in place appropriate operational controls and procedures, which provide opportunities for individuals to expose weaknesses.
- A failure to take whistleblowing seriously (e.g., seeking to establish the identity of an anonymous whistle-blower rather than investigating the concern identified).
- A belief that particular behaviour/approach is necessary for the company to succeed ('everything I did was for the benefit of the company').
- Weak compliance policies and procedures.
- A defensive – sometimes aggressive – response to criticism (e.g., in the Wirecard scandal, the company spent significant sums on attempting to discredit reporters who were trying to expose the fraud that had taken place).
- A failure to respond in the right way to poor behaviour (e.g., overlooking poor behaviour because of financial considerations).
- A failure to question the foundations of success.
- A failure to investigate issues in the supply chain (e.g., third party suppliers being implicated in practices that amount to modern slavery).





Effective governance

Effective governance can take many forms and there is no 'one size fits all' approach. What might, for example, be appropriate for a large multi-national company may be wholly inappropriate for a small to medium size business.

There are various sources of information that organisations can consider when assessing governance arrangements – such as the UK Corporate Governance Code and the Wates Corporate Governance Principles. The starting point, however, is the identification of potential risks that a business might face and the proportionate steps that can be taken to mitigate those risks.

We set out below a non-exhaustive checklist of the issues that businesses may wish to consider when determining whether governance structures are appropriate and effective:

> At the heart of good governance is a desire to create the right corporate culture."

Governance checklist

1. The board / governing body – roles and responsibilities:

- Is the Board comprised of individuals with the necessary skills and expertise to fulfil its function?
- Is the Board sufficiently diverse and does it promote diversity and inclusion?
- Do senior managers set the correct tone from the top?
- Do all board members / senior executives understand their legal and regulatory duties?
- Do non-executive directors provide constructive challenge to the executive?
- Is the board provided with management information which enables it to understand the key issues within the business?
- Does the board / governing body fully understand the business model, the products and services sold?
- Does the board consider ESG issues when making business decisions?
- Is there a conflict of interest policy?
- Is there a head of risk on the board? If not, how are risk and compliance issues reported to the board?
- Does the board understand the operational, risk and compliance challenges in the business?
- Does the board set the risk appetite for the business? If not, who determines the risk appetite?
- Does the board receive and sign off business risk assessments?
- Do board members receive regular training?

2. Committees – roles and responsibilities:

- Are there board committees (e.g., audit committee, risk and compliance committee, remuneration committee, nomination committee)?
- If so, are the terms of reference for each committee clear and aligned with the culture and business strategy of the business?

3. Risk and internal controls:

- Does the business have a compliance programme? Or a clear compliance framework?
- Does the organisation have a business-wide risk assessment?
- Is there a risk register? If so, is it kept up to date?
- Is there a code of conduct / ethics?
- Are there anti-bribery and corruption policies and procedures?
- Are there whistle-blowing procedures?
- Does the business operate a three lines of defence model? If not, does the business have an effective framework comprising internal controls and oversight?
- Does the business have an internal audit function?
- Does the business have effective financial controls? And if so, are those controls independently tested and verified?
- Do remuneration policies support the right behaviours?
- To what extent does the business undertake monitoring of its risk and compliance policies and procedures?
- Are compliance breaches fully investigated?
- Does the business have crisis management plans?
- Does the business undertake due diligence on third parties (e.g., parties in the supply chain, joint venture partners or contractors)?

4. Training / awareness:

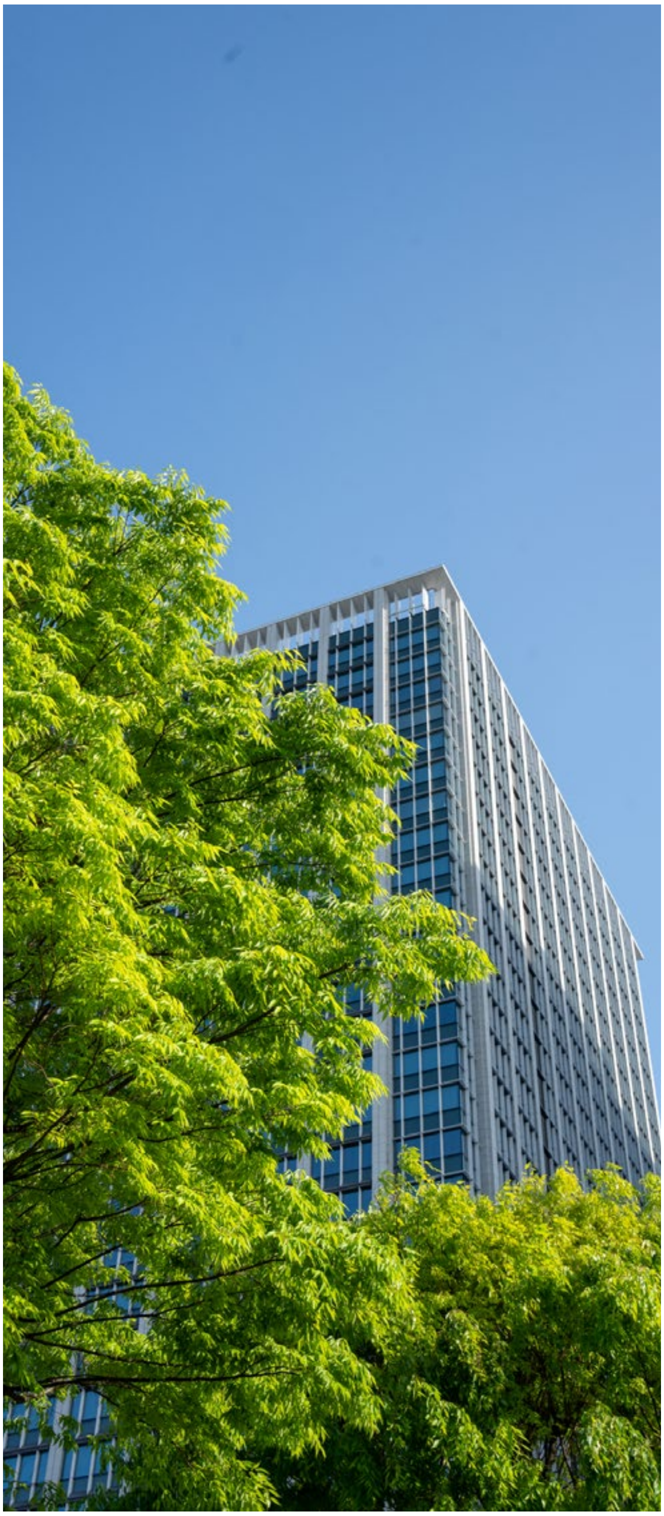
- Is training – induction and ongoing – provided to all levels within the business (including board members) to effectively communicate the culture, approach to risk and the compliance procedures?
- Does the firm seek to test staff awareness?

5. Human resources:

- Does the organisation undertake screening on new recruits, temporary or agency staff?
- Does the organisation have a clear process for handling behaviour that falls below expected standard?

Taking it seriously

In considering ESG, the focus of the debate – perhaps not surprisingly – tends to be on E and S. The importance of G, however, cannot be overstated. Good governance is, of course, not a guarantee that problems will not arise. It will, however, mitigate the risks identified and is likely to provide a degree of confidence to investors and key stakeholders that the business takes good governance seriously.



A source of opportunity in social housing

- *How are providers of social housing addressing ESG issues?*
- *What additional opportunities has this provided?*

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A source of opportunity in social housing

ESG, sustainability, and social value investment are terms well-known to many participants in the living sector, not least to registered providers (RPs) of social housing, who may feel that they have been doing 'this' for many years and now everyone else is just catching up.

To some extent that is true. RPs have long been assessed on governance and viability standards, their asset management teams are deeply aware of energy efficiency and whole life costings, and RPs, by their very nature, are embedded in and engaged with the communities that they serve.

However, ESG now represents something much more for RPs and, as a sector, is increasingly a source of significant opportunity for these organisations to do more, more often, and more cost effectively.

Metrics

In terms of measurement, management and monitoring, it becomes a collection of metrics hung on three key hooks, including some or all of the following (and many more):

Environmental:

- Addressing net zero carbon in the housing stock and beyond – energy supply vs fabric first, housing stock upgrade/retrofitting and development
- Green procurement and supply chain management
- Renewables and energy efficiency
- Green buildings
- Clean transportation
- Environmentally sustainable land uses on schemes

Social:

- Community building and community sustainability
- Tenant engagement and customer satisfaction
- Reducing homelessness
- Promoting diversity
- Addressing affordability and tenure mix in developments
- Addressing 'heating or eating' issues and fuel poverty
- Placemaking activities

Governance:

- Board training and competence
- Addressing gender pay gaps
- Diversity and inclusion
- Board appointments and tenure structures
- Internal pay ratios
- Sick leave metrics
- Internal policies and procedures

A route to funding

While the Regulator of Social Housing undoubtedly will look more at ESG credentials over time, as they are a good regulatory performance indicator, the real driver for ESG is the desire of activist investors to broker positive change through social value investment. This has been demonstrated in recent years with the publication of ICMA green, social and sustainability bond principles, and the LMA green and social loans principles to give guidance for what the markets want to achieve.

Much of it comes down to measurement, management, and monitoring – do it, but record that you have done it, using performance indicators that are stretching but also material to the organisation's overall business and able to be benchmarked.

Reflecting RPs' collaborative approach to addressing change, this need for ESG reporting to be transparent, consistent and comparable resulted in a sector working group creating a voluntary reporting framework based on sector-relevant standards – leading to the November 2020 Sustainability Reporting Standard for Social Housing.

Is it successful? A quick internet search will tell you it is. Bromford, a major Midlands RP, has signed a number of sustainability-linked loans tied to energy efficiency targets, and other facilities to reduce gender pay gap. Clarion has been reported in the press as raising £350m through an oversubscribed bond issue. Overall, research suggests that the ESG-wrapped capital issuance to non-profit RPs exceeds £4 billion. These are not small sums of money.

Attracting investors

ESG for RPs is not about attracting customers – because RPs are typically addressing need in their areas of operation rather than, strictly, attracting customers from elsewhere. It is more about attracting investors, who provide the funding infrastructure to support RPs' operations and ambitions, allowing them to deliver better services and support to their customers. And, overall, because ESG has been a significant component of what RPs have done for a long time, the sector is well placed to exploit this route to market.

However, ESG represents more than just sourcing funding and recording numbers – it allows RPs, as major community participants, to 'tread more lightly' with what they do and, as a consequence of having done many of these things for a number of years out of sight, now to access activist social investment funding in a meaningful way as a return on their embedded ESG processes, and to have the confidence and resourcing to look to do more.

Having a formal ESG framework allows RPs to reduce their environmental impacts and generate positive social value impacts through the way in which they fund their core operations and future ambitions. ESG represents a great opportunity to RPs to drive and embrace positive change, and deliver real returns for their communities.

The role of planning in achieving net zero

- *Is planning a help or hindrance for achieving net zero?*
- *What is the focus of low carbon policies?*

Author:

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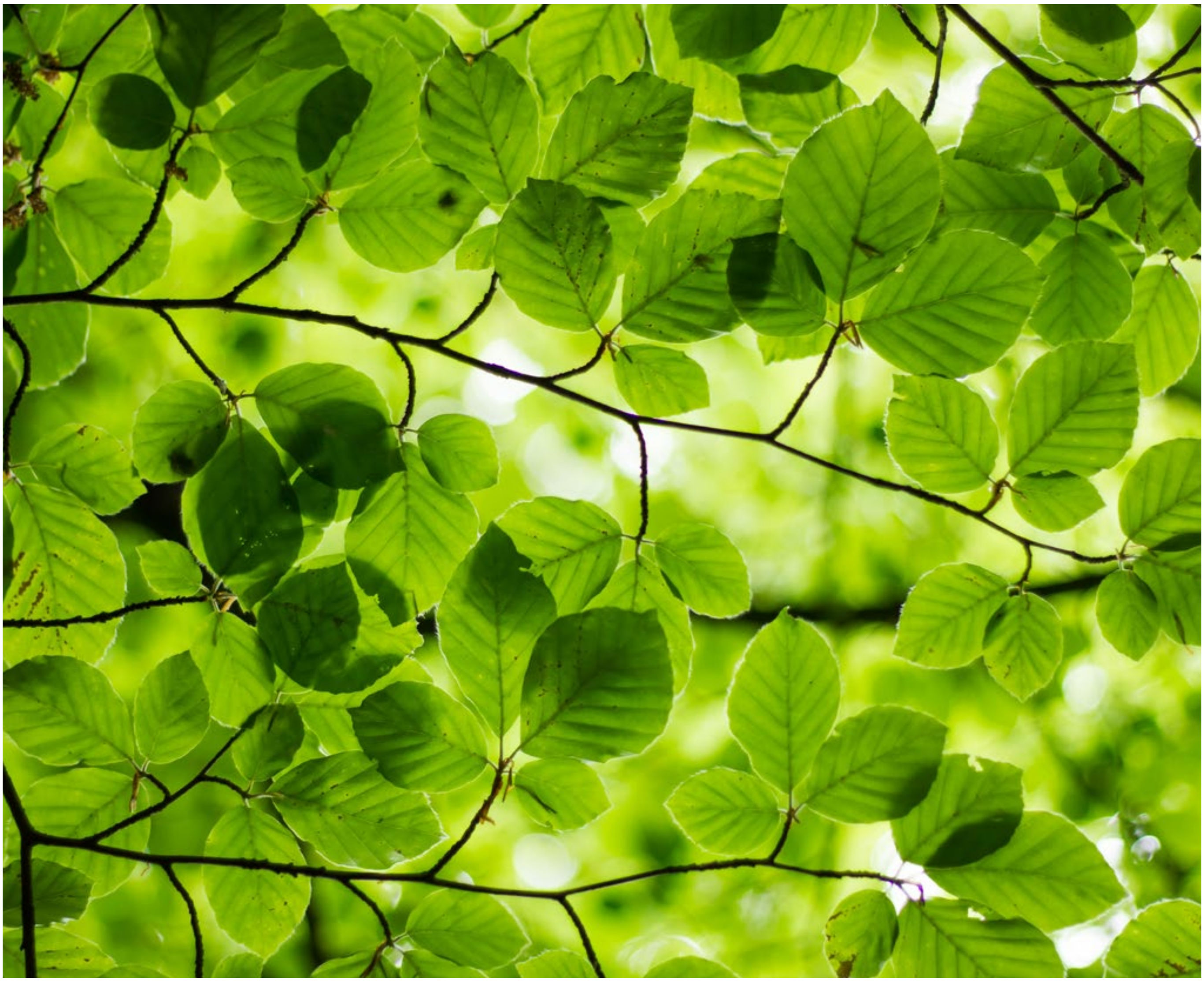
The role of planning in achieving net zero

There are a number of different drivers, enablers and hurdles to achieving net zero. This is typified by the planning system which, via the setting of national and local policies, is both a regulator and facilitator in respect of the delivery of low carbon development.

Whilst the development plan and locally set policies have primacy (by virtue of section 38(6) of the Planning and Compulsory Purchase Act 2004 (PCPA)), the National Planning Policy Framework (NPPF) is a material consideration in the determination of planning applications. The NPPF acknowledges the supporting role that the planning system is to play in the transition to a low carbon future and in shaping places with a view to securing climate change objectives, including a radical reduction in greenhouse gas emissions, the re-use of existing resources, including the conversion, re-purposing and modernisation of existing buildings, and the increased deployment of renewable and low carbon energy schemes and associated infrastructure.

> "There is a clear tension between the need to mitigate and adapt to climate change and managing the cost of development."



Local plans

The Planning Practice Guidance confirms that addressing climate change is one of the core land use planning principles which the NPPF expects to underpin both plan-making and decision-taking, and that in order to be found sound, Local Plans will need to reflect this principle. Furthermore, there is a statutory requirement (imposed by section 19(1A) of the PCPA) that Local Plans include "policies designed to secure that the development and use of land… contribute to the mitigation of, and adaptation to, climate change" which is a consideration when a Local Plan is examined.

Accordingly, the emphasis being placed on the sustainability credentials of new development at its various stages, as well as projects to convert and re-purpose existing buildings, has both a statutory and policy footing.

Increasingly, Local Plans include examples of low carbon policies being imposed, including:

- The preparation of detailed energy strategies evidencing reductions in greenhouse gas emissions and demonstrating development, both in its construction and operation, to be net zero carbon.
- The establishment of a minimum standard for the energy performance and carbon emissions of new and existing buildings, which often exceeds the energy efficiency requirements of building regulations.
- The offsetting of any shortfall against an 'on-site' net zero carbon target via the making of payments into the relevant local planning authority's carbon offset fund.
- The implementation of sustainable transport measures, including development-wide travel plans and car club or car sharing arrangements, and the provision of a minimum number of electric vehicle charging points within a scheme.
- The maximising of opportunities for decentralised heating and energy, including designing developments in order that they may connect into district heating networks in the future.

There is a clear tension between the need to mitigate and adapt to climate change and managing the cost of development. It is imperative that national and local decarbonisation policies, in their implementation, are compatible with the delivery of development schemes that are viable otherwise they will become a significant obstacle to delivery and will serve to stymie development.

Furthermore, the recent tendency of the government to legislate for the deregulation of the planning system through the introduction of increased permitted development rights and greater flexibility in use classes has the potential to undermine its climate change mitigation and adaptation objectives.

Pulling in different directions

Notwithstanding the priority status which is increasingly being afforded to the achievement of net zero through local planning policies and the NPPF's recognition that responding to climate change is central to the ESG dimensions of sustainable development, it should not be forgotten that there are a myriad of other policies, at both national and local level, which can pull in a different direction. These include policies concerned with securing high quality and well-designed places, the conservation and enhancement of historic assets and the protection of the natural environment.

It has always been, and will continue to be, the role of the planning system to resolve these policy conflicts where they arise. This underlines the importance of getting climate change mitigation and adaptation measures right so that they do the good they are intended to do, and do not result in harm.

Progress towards the achievement of net zero must be accelerated, and the planning system should play its part. However, the planning balance remains a delicate one to strike.

> "There are a myriad of other policies, at both national and local level, which can pull in a different direction."

Roundtable: Exploring the real estate ESG agenda

- *How can businesses jump on the fast train that is ESG?*
- *What are the commercial incentives for doing so?*

Contributors:

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Judi Greenwood
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Bev Taylor
Director of Energy & Environment – Bruntwood

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Roundtable: Exploring the real estate ESG agenda

The flow of capital into environmental, social and governance (ESG) assets, combined with the pressure to pursue change makes for a confusing landscape for businesses. This is especially for smaller firms without the resources and capacity to either dedicate internal staff time or hire an external expert to address ESG factors.

There is no less desire to do the right thing in the SME and mid-market, but there is a question around how.

"There's a lot of chatter and posts on LinkedIn, but how can businesses jump on the fast train that is ESG?" asked Debra Cooper, partner at Shoosmiths, at a recent seminar the firm held on levelling up the ESG agenda across real estate.

"It's the alphabet soup of acronyms," said Glenn Bemment, head of ESG for SME & mid corporate banking at Lloyds Bank. "Smaller businesses have enough to deal with, including inflation, resource shortages and skills gaps. However, ESG isn't going away. That's why demystifying it and taking the jargon out is important. We all need to get on the journey."

The real estate industry can be seen as one of the pioneers of ESG, at least when it comes to the E – environment.

"We were doing ESG before ESG was a 'thing'," said Bev Taylor, director of energy & environment at commercial property specialist Bruntwood.. "Our business is around 40 years old and was born out of recycling and improving buildings. That's always been our ethos. We've changed tack along the way. We now develop buildings as well as refurbish them, but our principles – rooted in place and creating thriving cities – have remained the same.

"We know that, as a business, we cannot succeed unless our cities and people are successful as well. While we're all at different points on the ESG journey, there are fundamental principles. That's why purpose is so important."

The idea of 'purpose' can be seen as a golden thread when it comes to ESG.

> As a business, we cannot succeed unless our cities and people are successful as well."

Sustainability-linked loans

The use of sustainability-linked loans is growing rapidly in the real estate finance market. According to data compiled by Bloomberg, over 40% of revolving credit facilities approved in Europe during 2021 were tied to borrowers' environmental, social, and governance goals.

Lloyds Bank recently made its largest sustainability-linked loan in the social housing sector – providing Platform Housing Group with £235m to build more homes and decarbonise its stock.

The housing association will be measured by three KPIs to secure margin discounts on the funding. These are to improve the energy efficiency of its existing portfolio, increase the energy efficiency of its new build properties and invest in its communities by increasing the proportion of those undertaking apprenticeships each year. The last KPI shows the increased focus on the S of the ESG.

"Lloyds Bank is helping provide access to quality, sustainable and inclusive homes in the right places," said Bemment.

"We've got a role to play in providing access to finance for homes. There are also less well-developed areas that need mix of use – whether that be residential, commercial, entrepreneurial or big business."

The volume of sustainability-linked loans in the UK real estate sector is one indicator of the progress being made on the environment. Shoosmiths is contributing to this after advising Lloyds, as part of a syndicate comprising NatWest, HSBC UK and Santander, on one of the largest regional sustainability-linked loans in 2021, to Bruntwood SciTech.

Advancements in this area were reaffirmed by Cooper: "The E is slowly becoming business as usual, or at least the acknowledgment that it needs to be."

This is resulting in a shift in the real estate market, as outlined by Nick Taylor, director at Savills, who said: "We're now seeing people applying a significant capital expenditure when evaluating and valuing a 'brown' asset."

More than E

The E is only one aspect of ESG, though. To be successful, the real estate industry and the wider business community need to prioritise addressing social and corporate governance.

"We're a not-for-profit social enterprise aimed at getting a more diverse range of young people into careers within the property and construction industry," said Judi Greenwood, head of Regeneration Brainery.

"Currently, young people are looking at the Manchester skyline and thinking that there isn't a future for them in their own city. Regeneration and levelling up is about ensuring these young people feel like they can be part of the change and investment that's happening."

Greenwood's comments highlight the human impact of ESG. They also reveal why it is critical that businesses understand the importance of integrating social and corporate governance into their ESG strategies.

"Larger organisations, like Shoosmiths and Lloyds Bank, have a key part to play in bringing different sized businesses together and providing education," said Bemment. "We've learnt very quickly about the power of putting people in the same room."

Bev Taylor echoed this, pointing to the action landlords can also take: "As a building owner we recognise the importance of collaboration. We've got to try and help people on this journey, as often businesses may not know where to start."

"Companies can often be scattering around to deal with the social element of ESG," added Greenwood. "However, collaboratively, we can take huge leaps in helping the communities we're working in harnessing the power of partnerships to achieve ESG targets."

Commercial sense

It is becoming increasingly clear that doing good does not have to come at the cost of doing good business.

"There's lots of upside to ESG," said Bemment. "Businesses might think it's another thing to do, that its costly and they don't have the time. All of that can be true. But there are opportunities, including reducing energy costs, attracting talent, or winning new clients."

One important factor in businesses recognising the benefits of ESG is measurement. This is also critical to avoiding the concept of 'greenwashing' and enabling businesses to chart their ESG journey internally and externally – demonstrating the impact of their efforts.

"Data and measurement are integral to documenting and validating ESG," added Bemment. "This allows future management teams, regulators or auditors to revisit things like sustainability-linked loans and ensure that KPIs are being hit. It comes back to good governance – an area that can often get overlooked when it comes to ESG."

Talking on Bruntwood's experience, Taylor said: "It's a case of 'so what' – what is the wider impact and how does this translate into our communities?

"Pre-loan, sustainability was often approached as the responsibility of people that might sit 'over there'. We now find that it engages different parts of the business. All of a sudden, finance want to talk to us to check if we hit the KPIs as it would chip off the loan.

"There's always a question of what we should put in the KPIs. It brings people together from across the business to discuss our wider purpose and what drivers we need to improve."

Embedding ESG

Over the past five years Bruntwood has secured several sustainability-linked loans. While the progress made towards hitting its ESG targets has been critical to its success, Taylor's comments show that it is only possible when an entire business gets onboard.

This was a uniting factor in the roundtable discussion, with Nick Taylor commenting: "At Savills, I sit within an expanding green group. There's a lot of knowledge there. But, ultimately, the ideal scenario is that there aren't these groups, and information is spread across the division and company so that ESG becomes ingrained."

The way the UK real estate industry is evolving means that ESG is now unavoidable, with new legislation and policies requiring businesses to act.

There's also the investor pressure, with Bemment explaining: "If in five to 10 years' time people are still sticking their head in the sand and not engaging, you will see some of those brown and green premiums when it comes to finance.

"That might be through incentives, or more aggressive pricing. If you're not willing to come on the journey, it could be more difficult or more expensive to get finance."

The government, legal providers and other larger organisations must ensure the education, funds and resources are made available to help other businesses on their ESG path.

This must be matched by businesses setting and meeting their own targets. Bruntwood's Taylor concluded: "It's one thing saying it, and another thing actually achieving it."

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