Dialling-up our integration of ESG into real estate
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How we integrate environmental, social and governance (ESG) policies into real estate management is becoming increasingly important. In general, investors have become more ethically and environmentally conscious, and they take a far more holistic approach to their investments. Global environmental targets and legislation at a national and European level are also pushing the boundaries for ESG integration.

But buildings, by their nature, are energy intensive. From the carbon used in bricks, concrete and steel, to the running costs, they have a direct impact on the environment. And unlike shares and bonds, properties are tangible assets that people can see, visit, work and live in. How they look, how they operate and how they are managed affects occupiers, landlords, investors, and the local community.

Our research has shown that investors don't all share the same view when it comes to managing assets, though. Some traditional investors are more focused on financial returns. Some take a more responsible investment approach where they are primarily driven by financial returns, but they take ESG factors into account. Others are looking to make a positive impact and see financial returns and ESG concerns as equally important considerations.

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The four ‘forces for change’

Investors also differ on what specific ESG factors they view as important. Some may be particularly concerned about limiting any damage to the environment, for example, but they may consider social aspects to be of less importance. ESG concerns can also vary by location and geography. Investors in the UK may have different priorities from those in Scandinavia, Germany or in the US. And those with global aspirations may differ again.

At Aberdeen Standard investments (ASI), we believe there are four forces affecting global real estate investment.

| Changing environment and climate | Increasing governance, engagement and calls for transparency | Changing demographics | Rapidly increasing technology, connectivity and infrastructure |

The four forces naturally encompass a diverse range of topics and concerns. But we have translated and codified these into our investment approach, while also aligning them to the UN Sustainable Development Goals. We believe that these forces will shape the future and so in turn shape our long-term approach by guiding how we prioritise ESG factors at the fund and asset level.
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Our unique ESG Impact Dial

At ASI, we have created a new, bespoke solution for investors (see chart below) that enables us to dial our ESG aspirations up or down based on our investors’ desired outcomes.

When it comes to integrating ESG into real estate, the house standard will be the absolute minimum policy that we would use for all mandates. The house standard focuses on avoiding undue risk when managing a real estate asset. This strategy influences the assets we buy, how they are managed and the future plans for the asset. After that, investors can decide which of the ‘forces for change’ are key priorities for them and where on the ESG investment spectrum they aspire to sit. There is a sliding scale from acting to avoid harm or risk through to policies that benefit stakeholders; there are even strategies for those who want to drive innovative ESG solutions (where they aim to solve specific problems, or generate specific positive environmental or social impacts). Some investors may want to be innovators for environmental and climate challenges, but may prefer to focus less on social and demographics. Others may have different priorities. This bespoke approach also takes their risk profile into account and their target return aspirations for now and the longer term.

Determining the baseline profile of ESG integration portfolios today and setting aspirations for 2025.

Taking into account investment strategy, client appetite and asset opportunities.

Source: Aberdeen Standard Investments, February 2019
“The ESG Impact Dial is the first of its kind in the real estate asset management industry. It gives us the unique ability to tailor investors’ ESG aspirations to their risk profile and target goals – and to fully integrate these into real estate management.

ESG in real estate is a complex and diverse world. Our innovative approach means that one size no longer has to fit all.”
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