



A **Greener planet,**
that's the bottom line.



Future insights on sustainable investing, find out **what's next...**



Investing to thrive in the Green age

In the first edition of 'Future Insights' we learnt about the sustainability priorities of key players in the construction and built environment sectors.

Now, in our second edition, we explore in-depth the leading investment professionals' views on sustainability and how it is driving their investment decisions.

Welcome to future insights on sustainable investing

We reveal the trends investors believe will boost – or hold back – sustainable investment, and the opportunities and risks they face today... and in the future.

Greengage's ESG specialists also provide their insights into the findings.

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This report will begin to help us all gain a better understanding of sustainable investing and the specific opportunities it provides for the built environment and any challenges we may need to address.

Mitch Cooke | Greengage Founding Director and Head of ESG



Views from the top

Greengage would like to thank everyone who contributed their experiences and opinions and gave us their time to create this second edition of Future Insights on Sustainable Investing.

Who we talked to



What's been the biggest change in sustainability over the past five years?



ESG



GREENWASHING



INCREASING REGULATION



AWARENESS

“ There has been massive change, with sustainable finance regulation and the broader increase in climate awareness driving action.

Dan Grandage | abrdn



Behind the figures

ESG has shifted to the mainstream

In common with developers and consultants, the investors we interviewed highlighted the increasing awareness and acceptance of sustainability, ESG and the need to address climate change. One interviewee said that in **the financial sector sustainability “has come into both sides of the balance sheet”**. Investors feel better informed, and scrutiny was regarded as being here to stay. One interviewee said, **“We’re all going to be held to account a lot more”**.

Keeping pace with regulations

Increasing financial and corporate regulations, standards, and reporting requirements have pushed sustainability to the forefront of the financial sector’s agenda. However, one interviewee described it as a **“tsunami of regulation and disclosure”**. While a third of those interviewed thought evolving regulations were helping to drive change, provide clarity and counter greenwashing; several respondents said **the fast-changing landscape was also leading to uncertainty and confusion in the market.**

Lack of trust

There was some criticism that the value of ESG was being largely focused on inputs rather than outcomes. Untrustworthy ESG claims, obscure jargon and the lack of comparability were also making it difficult to assess ESG credentials. For reporting to be effective, it must be relevant and reliable. **Yet, many interviewees thought company reporting on sustainability performance contained a degree of greenwashing.**



Behind the figures

GREENGAGE KEY INSIGHTS

The past five years has seen the rise of sustainable investing and ESG issues becoming a strong driver for buildings and construction to become 'greener' and benefit future generations. **The need to comply with new and increasing financial and corporate regulations will have an impact on investment decisions**, but there needs to be far more clarity and harmonisation. The emergence of frameworks such as the Taskforce on Nature-related Financial Disclosures (TNFD), regulations such as the Sustainable Finance Disclosure Regulation (SFDR), and green taxonomies around the world will help deliver this clarity and harmony.

On the one hand, there are legitimate concerns regarding sustainability and ESG assessments based on 'patchy' data, which may present reputational and regulatory risks for companies and investors. On the other, we are approximately one third of the way through the 'Decade of Delivery', and understanding climate- and nature-related risks, impacts, and dependencies is the critical first step to mitigating and adapting to them. **Companies must therefore exercise transparency, avoid 'greenhushing', and adopt a science-based approach when assessing and reporting on their ESG credentials.**

Whilst there is work yet to be done in the areas of ESG measurement and impact accounting, corporates must demonstrate leadership and a willingness to learn, collaborate, and adapt if they are to drive the positive changes required at scale.

What's preventing exemplar sustainability becoming the norm?

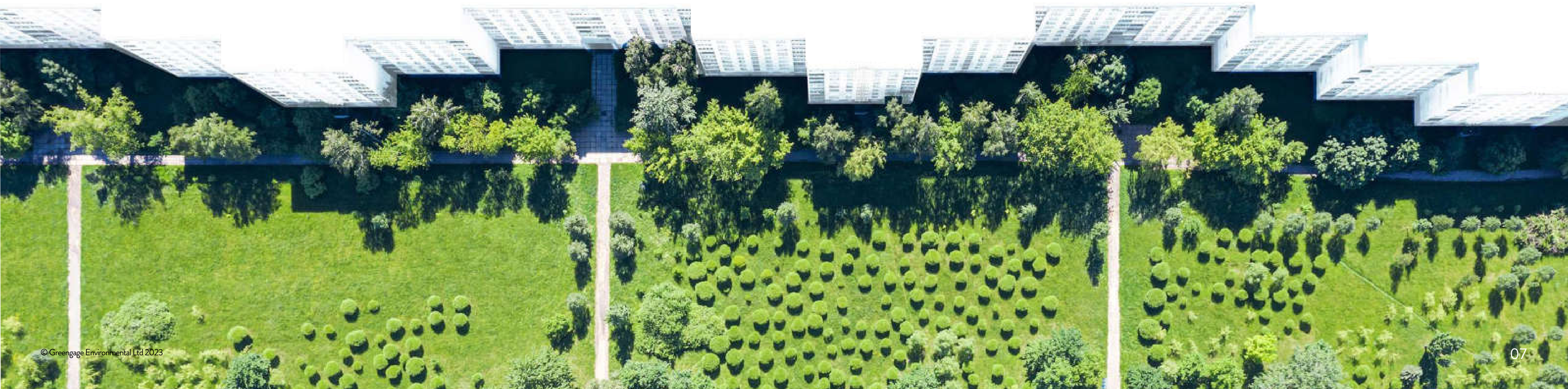


Response percentages exceed 100% as the question allows respondents to provide multiple answers

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This isn't something that can be resolved by disclosure or box ticking; it requires action and understanding. We need to recognise that many decisions will have trade-offs, and some will have unintended consequences. Ultimately, everything you do is interdependent. Working in silos will not solve the challenges we face... No one has all the answers and things won't go to plan, so enabling others to learn from your challenges and mistakes will have a multiplier effect.

Kate Sandle | Newcore Capital



Behind the figures

“We need more honesty”.

While there is considerable interest in sustainability, the industry is still grappling with many challenges, such as accurate measurement. With different types of sustainability and the complexity and interdependency of ESG factors, **investors are aware of significant knowledge gaps which need to be addressed.** This lack of understanding could inhibit achieving long-term value and generating better returns.

Data issues

Almost fifty per cent said data issues, from gathering to measurement, were frustrating sustainable investment. There were pleas for clear and consistent data terminology and standards. One interviewee said, **“There’s a huge amount of jargon thrown around that people don’t understand, and it can have unintended consequences.** We see that when we get requests from our investors applying metrics that really apply to an equity perspective to real estate, or vice versa, and they ask us to disclose information when we can’t because they’re using the wrong terminology.”

Cost

Over a quarter of those interviewed agreed that cost was a major threat to sustainable investment. The upfront costs of investing in renewable and sustainable projects such as retrofitting existing buildings can be high. **And in a high-inflation, low-to-no growth economy with rising energy and raw material costs, ESG can seem difficult to prioritise.** Two respondents feared sustainability progress was coming under pressure, with recession cutbacks and high costs giving rise to anti-ESG sentiment.

Policy and regulatory uncertainty

The lack of consistent government policy and leadership, together with regulatory uncertainty were said to be stifling market uptake and investment.



Behind the figures



GREENGAGE KEY INSIGHTS

A key barrier to sustainable investment has been the proliferation of terminology, competing frameworks and standards which are leading to confusion and inconsistencies in approach. **Fewer, clearer, and simpler definitions would enhance transparency and boost confidence in the integrity of the market.** Several important standards and guidance documents are due out including:

- The UK Net Zero Carbon Buildings Standard, providing an industry-agreed standard for Net Zero for anyone who wants to either fund, procure, design or specify a Net Zero building. It will align with science-based targets and will apply to both existing and new buildings; and
- The development of market-first UK commercial real estate guidance for TNFD-aligned disclosure and reporting.

Access to affordable sustainable finance and being able to share associated costs are also significant challenges for businesses. Having the right skills and funding support to enact the necessary changes will be vital for companies to integrate sustainability into their operations.

Policy continues to be a major barrier to the delivery of exemplar sustainable development. The industry continues to take giant steps forward, collaborating and innovating on delivering sustainability. We need strong, clear, progressive policy, influenced by industry and those who have the experience. It must be a long-term commitment. We may not have five years for the policy makers to hesitate further.

What's the next big thing in sustainability?

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The real estate sector needs to accept that everything we must do to drive sustainability and have positive impact is simply going to require a lot more work.

Clemens Brenninkmeijer | Redevco

SOCIAL SUSTAINABILITY AND A JUST TRANSITION

57%

NATURE AND BIODIVERSITY

46%

CIRCULAR ECONOMY

20%

INTERSECTIONALITY
the funding gap and unconscious bias.

13%

Behind the figures

Social value

Sustainability is not just about the environment; **investors are thinking about their impact on people too.** Over fifty per cent of our interviewees believed that sustainable investment strategies would incorporate a robust social dimension. Contributing to a Just Transition was also seen as an important emerging trend. A Just Transition means moving to a healthier, more sustainable economy in a way that's fair to everyone.

Valuing nature

Nature and biodiversity loss was top of mind for the investors we spoke to, with forty-six percent of them saying they would be factoring biodiversity-related risks and opportunities into their decision-making from now on. While nature scored highly, one interviewee's response made the challenge of communicating nature's inherent importance to humanity clear, by pointing out how it is still coupled entirely with financial gain.

Circular economy

Circular economy principles were predicted to move up the agenda and were recognised as a good way to invest. **Investors planned to adopt circular economy strategies not just for social and environmental reasons, but for performance reasons:** lower investment risk and superior risk-adjusted returns.

Intersectionality

Thirteen percent of investors thought that an **intersectional approach to sustainable investing would become more important.** Intersectionality is the notion that a person's gender, race, class, and sexual orientation can create different levels of advantage and disadvantage.



Behind the figures

GREENGAGE KEY INSIGHTS

A focus on social value and a Just Transition will be integral to addressing climate change and sustainability initiatives in the built environment. **Traditionally, this area has been harder to quantify and therefore measure 'success'.** Guidance has been catching up with the demand for understanding social value, but work is still required to shape methodologies, measurement, collaboration, and governmental regulation.

The biodiversity crisis needs to play a central role in future sustainability thinking. The built environment sector needs to understand its supply chain and the impact it has on nature to maintain and restore natural capital. **Society cannot achieve net zero or remain below the 1.5°C target without placing nature-based solutions and ecosystem services at the centre of this approach. Circularity** is also central to reducing **embodied carbon**, supporting the **net zero transition**, and **limiting the degradation of nature** for goods and services. TNFD guidance will play an important role, raising awareness of the centrality of nature, biodiversity, and functioning ecosystems to long-term financial sustainability. This will be further supported by work from the likes of the UK Green Building Council (UKGBC) on 'Biodiversity and Environmental Net Gain (BNG & ENG)' and 'Embodied Ecological Impacts of the Built Environment'.

Investment will play a leading role in fully embedding sustainability and climate resilience in all sectors of society, but particularly in the built environment, and **we need to move quickly to integrate retrofit and circular economy business models.**

Wealth



Health

...in a sustainable future

Investors have a key role to play in achieving a resilient, sustainable economy. However, sustainability initiatives are stronger when they include everyone. So, as well as investment, it will take vision, tough conversations, and a **willingness to work with a wide range of people to build a better world for all of us.**

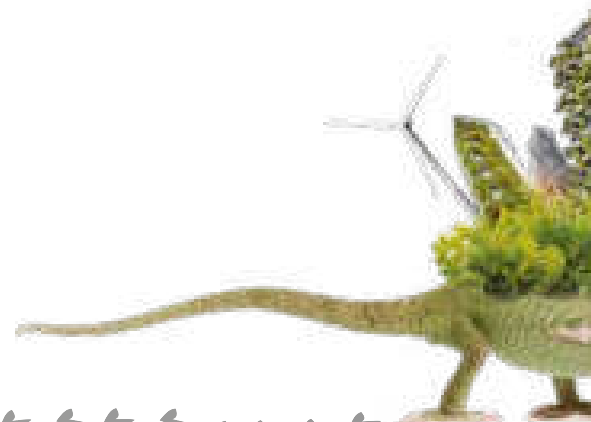
Here's what's needed to boost the transition to a sustainable, Net Zero future.

- Independently and expertly verified, non-financial data investors can trust.
- Clear definitions and standardised reporting frameworks to make measuring, interpreting, and reporting data easier.
- Funding and incentives for business of all sizes. As one developer said: "Green loans exist, sustainability-linked loans exist, but you have to be a certain size of business or have a certain reputation to be seen as low risk and able to access them".
- Evidence of improved asset performance.

Now's the time to intensify efforts and target investments that deliver our climate, social and biodiversity goals in ways that are fair and inclusive.

The benefits of being resilient and sustainable will far outweigh the initial cost.

What's coming next...



Invest in change.



Greengage will be hosting a Webinar on What's Next for Sustainable Investing in May. To hear more about this and further insights on sustainability in the built environment follow us on LinkedIn.

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