

ERIC SALMON & PARTNERS INSIGHTS REPORT:

Built to Last?

The Evolution of Sustainability Leadership in Real Estate



“We shape our buildings and, afterwards, our buildings shape us.” Winston Churchill

- Arguably no other sector has the same societal impact on communities as real estate.
- And on our environment? The built habitat is the largest single contributor to global greenhouse gas (GHG) emissions, at an estimated 30 - 40% of global totals.

As such, the varying approaches of real estate companies towards sustainable development have a significant bearing on global environmental and societal sustainability ambitions.

How companies choose to progress the sustainability agenda is largely driven by leadership, vision, strategy and culture. Keen to understand the shape of sustainability leadership in the real estate sector, Eric Salmon & Partners has been discussing these elements with leaders across real estate's value chain: property developers, owners and tenants; asset managers and investors; lenders and advisors. We have endeavoured to gain insight and leadership perspectives beyond corporate manifestos and broadscale communications to understand the composition of real estate's evolving sustainability leadership.

Key Insights

On the surface, a number of CEOs and Boards in the sector are publicly endorsing the transition to sustainable development and this is reflected in shifts underway in organisational structure and corporate governance.

Organisational structure

- Often large institutional investors have incorporated Sustainability into their Research and Strategy functions.
- Asset Managers and Technical Directors have additionally taken ownership of the function.
- Large property companies and developers have frequently created Chief Sustainability Officer leads who are part of Corporate Affairs, Corporate Communications, Strategy or Innovation departments.
- In some instances, a functional lead carries the Sustainability banner as adjunct to the 'day job'. This is seen as a way to demonstrate the seniority of the role and its importance to the company.
- Investor Relations and Finance are cited as key business allies in improving ratings, reporting, sustainable investing and overall governance.
- HR is a key partner, owning the societal dimensions – human rights, diversity/equity and inclusion as well as health and well-being.

Although there was a noted desire to ensure sustainability was not 'owned' by one Sustainability titled leader but was woven into the business, many companies have nonetheless set up a Sustainability function to secure action and ownership of the agenda, by all.

With the exception of those individuals who have Sustainability as an adjunct to their core roles, the Sustainability leaders in organisations observed rarely report into CEOs directly. This is not unusual and is the case in most sectors.

Performance Management

Advanced players have already integrated sustainability metrics into their decision-making and performance management processes but this remains relatively new. Furthermore, we noted a bias towards the environmental dimensions of ESG rather than the social. This said, nearly all leaders noted work underway, particularly in partnership with HR departments, on diversity/equity/inclusion aspects.

- Approximately 50% of companies we spoke with have already started to link sustainability KPIs to performance pay or will do so for the first time in 2021 for top tier management.
- From our discussions, it is likely this figure will increase to around 80% of the companies surveyed over the next 18 to 24 months. Moreover, it is expected that KPIs will be incorporated into annual performance objectives for a much larger part of the organisation.

Progressive CEOs heralded the inclusion of metrics into annual targets as a key to assessing leadership potential today and in the future.

Corporate Governance

Along with the relatively new establishment of ESG and Sustainability committees at executive level, we observed a growing number of organisations instituting committees at Board level.

Sometimes bridging both sustainability and the more historic corporate social responsibility, today's Executive Committees are delving more deeply into the overall sustainability agenda and we anticipate a similar impact at Board level.

Enablers and Challenges to Sustainability Transition

A number of **enablers** emerged: some biased to risk mitigation and others more positive:-

- CEO/leadership team's sense of personal belief and purpose
- Talent acquisition and retention, with emphasis on the younger generations who expect a company to do its part and effect change
- Route for innovation and competitive advantage
- Opportunity for partnership and collaboration, driving more meaningful Client engagement
- Clients' expectations, forcing the bar to be raised
- Regulatory demands, on the rise and set to continue
- Expectations by the investment / finance sector
- Prospect of litigation and the possibility of obsolescence or 'stranded assets'

This said, in practice, a number of **challenges** evinced themselves that distract or impede the rate of change in the real estate sector:-

- Diversity of client bases and asset types, each with their own sustainability agendas
- Commercial pressures, striking the balance of short and long term requirements
- Technology /AI / digitisation and the ability to deliver sound data and analytics to drive change
- Taxonomy and frameworks for reporting which is not limited to the sector under study
- Leadership skill and the understanding that seeing through a sustainability agenda takes a shift in mindset, plus courage and patience

Moreover, there is no 'one size fits all' approach; no blueprint for success:-

- The sustainability agenda touches nearly every part of an organisation
- The complexity and dynamism of the agenda means no one individual--or organisation--can have all the answers
- The interwoven tapestry of players across the real estate value chain requires to collaborate beyond their own companies

Closing Words

The COVID-19 pandemic has reinforced how fragile both the planet and humanity are. Real estate actors, whose actions impact our lives and our communities, have a critical role both singly and collectively in building a sustainable future.

The foundation for this transition is an evolving leadership which brings systemic thinking coupled with innovation and creativity; powerful communication which inspires; openness and inclusion that engenders collaboration; authenticity that imbues belief; and hearty ambition for one's own company and others.

This new breed of leader is one who can see beyond here and now, understanding not only sustainable business but also that our sustained existence relies on a sense of urgency as well as bold action.

The Authors

Sophie Landale

Real Estate Executive Search & Leadership Advisory
Practice Lead

slandale@ericsalmon.com

<https://www.linkedin.com/in/sophie-landale>



Nina Glass

Leadership Advisory, Sustainability & Change
Practice Lead

nglass@ericsalmon.com

<https://www.linkedin.com/in/nina-glass/>

