

Perspectives on ESG, COVID-19, and managing crises

A special bulletin summarising present efforts and thinking from UNEP FI's Property Working Group members

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The socioeconomic impacts from COVID-19 restrictions have affected all segments of the real estate sector in some form. For property investors and lenders, the economic picture is indeed troubling. While maintaining asset value and loan book quality undoubtedly is commanding significant share of owner/manager and lender attention, even more attention must be directed towards addressing the looming real estate related Environmental, Social and Governance (ESG) impacts such as creating/maintaining healthy spaces, business continuity, supporting local economies, and maintaining focus on climate change mitigation and adaptation. We are already seeing examples of how participants in the global real estate sector are responding to these emerging challenges. If anything, this crisis underscores that ongoing ESG integration during this period is imperative for institutions to emerge in a stronger, more resilient position coming from the crisis.

The UNEP FI Property Working Group (PWG) is a leadership group of asset owners, asset managers and lenders with footprints across North America, Europe, Africa and Asia-Pacific. The member institutions are committed to ESG integration in financial decision-making and recognize that environmental and social returns are co-equal and mutually reinforcing drivers of overall asset and portfolio financial value. The PWG convened virtually in early April to capture what its institutions are doing in response to the present crisis, and to start a dialogue on how practices may change because of it. The perspective is both strictly related to COVID-19, and how the lessons/actions from this crisis lend themselves to addressing other pressing environmental, public health, economy, and societal challenges. This bulletin is a summary of their present efforts and thinking on ESG integration moving forward.

Headline Trends: How ESG May Evolve from the COVID-19 Crisis

The collective insight from Group suggests that returning to 'business as usual' is not an option when ESG risks are continuing and amplifying. Links between climate change,

natural capital, disease vectors and pandemics are becoming clearer; business conditions and macroeconomic responses are uncertain, and societal perceptions around public health and equitable economies are shifting. ESG will be more critical than ever, and may evolve in the following ways:

- 1** The increased contact with tenants during the COVID-19 crisis offers an opportunity to develop **positive and collaborative landlord-tenant relationships** for now and for the future.
- 2 Innovative property wellbeing strategies** will lead to the enhanced attractiveness of an asset and result in higher occupancies, credit quality tenants, and tenant retention.
- 3 Improved attention to societal needs** in terms of balancing investors' interests with the safety and preparedness/business continuity interests of employees and tenants will be extremely critical.
- 4** A growing understanding of the connection between climate change and health, and this pandemic's experience with abrupt, non-linear change, will help **strengthen institutional focus on climate change**.
- 5 Institutional approaches to resilience** will broaden, both internally (e.g., with tactics such as portfolio diversification, strengthening risk management) and externally (i.e., what the private sector can do to maintain functioning urban environments during crises which may be biological, social, geophysical or technological).
- 6** The real estate sector can use its influence so that COVID-19 recovery plans include public investments in **climate resilient infrastructure** that spur employment and future-proof urban environments

Summary of April 2020 Webinar on COVID-19

Approximately 40 participants from more than 20 financial institutions, plus a small number of individuals from UNEP FI-supporting academic institutions and industry associations took part in webinars/discussion forums on how COVID-19 is affecting their day-to-day work now and institutions moving forward. Two calls based on geography/time zone were held with participants from the US, Canada, UK, Switzerland, Germany, France and Kenya; and Hong Kong, Japan, Singapore and Australia. They were led by the co-chairs of UNEP FI's Property Working Group: Anna Murray of [BentallGreenOak](#) (Canada) and Calvin Lee Kwan of [Link REIT](#) (Hong Kong), respectively. Though a global pandemic with nearly all institutions facing the same issues, the discussions did highlight some local nuances. With COVID-19 taking root in Asia-Pacific earlier plus experience from prior contagions such as SARS, as well as regional and national differences in spatially oriented social norms, factor in this. As expected, participants commented that learning from Asia Pacific would be valued in other regions.

The webinars were structured as open-ended discussions that ranged across a broad set of topics. The comments and discussion points from the sessions have been compiled and consolidated around the themes below.

Health, safety and wellbeing

There is an expectation that social norms will change around personal and public space and influence health and wellness. This impact is already manifesting itself in property ownership and management areas such as cleaning and maintenance; in design and layout of public spaces and internal areas; in setting protocols and practices around occupancy monitoring and tracking; and in the need to think more strategically and innovate on health and wellness.

While wellness has been an area of concern for ESG practitioners, the current crisis may make it more prominently so. Health issues are expected to be more central to occupier decision-making, and owners/landlords may achieve a market premium where assets have higher health and wellness ratings/building certifications, and/or can otherwise demonstrate approaches to wellness and effectively communicate this to occupiers and the public. Health and wellness considerations could also start to appear in lease frameworks and terms.

BentallGreenOak

BentallGreenOak's Sustainable Investing team has developed a Health & Wellness Certificate Training Program for both asset management and property teams. This program is intended to provide a framing of health & wellness in the context of the built environment including operational, structural and programmatic interventions. The tools and resources within the training provide context and structured recommendations to help guide the process of implementing health & wellness initiatives across all portfolios.

Social value

Discussants felt that COVID-19 may recalibrate society's expectations of building owners/managers in protecting occupant and visitor health, in repurposing space (e.g., housing critical workers and quarantined individuals), and in obligations to help cushion the worst financial impacts felt by businesses and residents. Coming from the crisis, more attention will be needed on measuring social value and social impact than has been the case. Many institutions that may have traditionally focused more narrowly on their effect on local employment and work with charities will need to think more comprehensively about what social impacts can be measured and appropriate metrics during times of pandemic and extreme economic distress. Better social impact monitoring can improve institutions' understanding of local area resilience and support strategic planning that helps communities cope better in times of crises.

City Developments Limited (CDL)

The Singapore Government announced on 26 March a property tax rebate as one of its economic support measures. Shortly thereafter, CDL announced that 100% of the property tax rebate would be passed through to qualifying commercial property tenants and 30% for businesses in other non-residential properties such as offices and industrial properties. CDL had already disbursed rental rebates to qualifying retail tenants in March, and to provide sustained rental relief furnished rental rebates of 100% in April and 50% in May for these retail tenants. These commitments to property tax and rental rebates amount to more than S\$23 million (USD\$16 million).

Operational data and ESG reporting

The occupancy reductions and dispersal of tenants and managers is making the collection and analysis of owner and tenant data particularly challenging, while rendering trajectories and point-in-time performance comparisons almost meaningless. Many discussants noted that GRESB reporting has been delayed by one month to support respondents with their shifting priorities and workload challenges. Though further delays may be warranted (that is, the same challenges may remain one month out), this would have a knock-on effect of compressing the time available to address performance gaps and remedial actions before the start of the next reporting period. It was felt that continuing to report to external platforms and receiving scores/results in return should continue, though the metrics used may need to be rethought for this year.

Link REIT

Link has been working closely with its tenants to develop individual, tailor-made solutions so that businesses not only can cope with the recent challenges, but also have improved prospects following a very difficult year. Looking forward, Link has also recognized that the high degree of interconnectivity between industry, business and society requires businesses to take a renewed and inclusive approach to identifying, monitoring and mitigating risks. Following this, strategy and risk planning at Link has transitioned to become scenario-based and reaches out for input internally across departments and externally from key business partners. Doing so allows for a comprehensive assessment of the near- and medium-term resilience of Link's ecosystem, enabling a coordinated and aligned approach to mitigate future common challenges and minimize business interruptions.

Remote working/Home Office

The general opinion amongst the discussants was that prospects for a permanent and deep shift towards teleworking arrangements within tenant companies is being overstated. Companies that had resisted remote working policies prior to COVID-19 will no longer do so, and others that had remote working flexibility prior will continue to offer it. However, the expectation from most is that workers will generally be anxious to return to offices and that the impact on space demand may ultimately be modest. It was noted that companies inclined to aggressively promote teleworking following the immediate crisis will need greater focus on the human resource implications, e.g., the challenge to employees with small homes/apartments that lack suitable working space; or employee need for ergonomic chairs, keyboards and monitors, etc. that affect worker health.

Efficiency improvements and emission reductions

The reduction in building use/occupancy has clearly led to a reduction in carbon emissions. But it is imperative that owners/landlords and their stakeholders understand this is fleeting and cannot be confused with critically needed structural changes for climate change mitigation. That the present crisis will result in tenant-landlord discussions on lease terms/payments or changes in temporary or permanent space needs was not yet seen as an opportunity to execute building efficiency upgrades or promote shared investment/saving approaches between the parties. Rather, regulations or innovative third-party efficiency finance/service arrangements will remain as stronger drivers.

Supporting tenants

All owners/landlords are seeing rent relief and restructuring requests. Retail is the most severely affected and non-payment rates in some regions are ranging between 40 and 80 percent. National governments in some countries are stating their expectations that owners/landlords absorb some near-term financial losses from missed rental payments, though more burden sharing with governments can also be expected moving a few months out. Several owners/landlords described direct, one-to-one outreach they are making to tenants to understand their circumstances and tailor payment plans and terms, as opposed to offering blanket changes to all tenants. This is particularly meaningful to SMEs who may make up 50 percent of retail tenant mix. Property owners/landlords should also consider the role they can play assisting SMEs in accessing government grants as a way to stabilise tenant rolls and make government programmes more effective.

Mitsubishi Corp.- UBS Realty Inc (MC-UBS)

At the start of the COVID-19 outbreak, MC-UBS began monitoring health conditions of tenants' employees as well as tenants' business conditions more carefully and sharing the status with the company management at daily calls. When any tenant employee infected by COVID-19 was discovered, disinfection measures were promptly implemented in the facility in cooperation with the property managers according to the instructions of the public health center. This is a critical property owner action to prevent the virus from spreading to other tenant employees and the visitors in the facilities where still occupied. Since the outbreak, MC-USB have been tightening building access and control in line with the Japanese government's guiding principles, such as an alert on 10th March and emergency state declaration on 7th April.

Moving from crisis management to strategic planning

Most owners/landlords continue to be reactive to the current situation and have not had the bandwidth to think more strategically about what is next (e.g., demand trends, space planning and design, etc.), excepting parts of Asia where restrictions are easing. Some Asian practitioners revealed they are involved in medium-term scenario planning in areas such as consumer sentiment and retail demand, or reconsidering risk factors such as future ability to access materials or supplies.

Participants noted the challenge in communicating and signaling on sustainability and ESG when the financial picture is so impacted. There was sentiment that within some institutions, management were pushing ESG messaging to the side in financial reports being prepared now. However, others suggested that their long-term outlook and historical attention to and leadership in ESG has better prepared them to manage the current situation and will support their financial performance relative to peers during the crisis.

There was broad agreement that ESG and sustainability cannot recede, is critical for decision-making, and will help drive value moving forward. How owners/landlords respond to behaviour changes and social preferences that will surely arise should resonate with investors/stakeholders. Emerging from the present crisis, ESG and sustainability may be less siloed, more broadly relevant beyond environmental considerations, and better integrated into risk reduction strategies and measures. The current situation may also allow space for some ESG initiatives that have previously struggled to gain traction to emerge. For institutions actively raising capital, sustainability-linked loans and bonds may grow in importance, i.e., finance instruments that go beyond green (efficiency and emissions) to capture social benefits more fully.

COVID Discussion Forum Participating Institutions

BentallGreenOak, UBS Global Real Estate, Citi, Zurich Insurance Group, Bank J Safra Sarasin, BMO Real Estate Partners, KCB, DWS, Axa, Aviva, La Francaise, Manulife, Federated Hermes, CBRE Global Investors, Michael Brooks & Kris Kolenc (REALPAC)*, and Sarah Sayce (University of Reading)* (1st call); Link REIT, City Developments Ltd, ORIX Asset Management Corporation, Mitsubishi Corp. – UBS Realty, Sumitomo Mitsui Trust Bank, Investa Property Group (2nd call).

* Special advisors to UNEP FI Property Working Group (non-financial institution)

About UNEP FI

The [UN Environment Programme Finance Initiative](#) (UNEP FI) is a partnership between United Nations Environment Programme (UNEP) and the global financial sector created in the wake of the 1992 Earth Summit with a mission to promote sustainable finance. More than 300 financial institutions, including banks, insurers, and investors, work with UNEP to understand today's environmental, social, and governance challenges, why they matter to finance, and how to actively participate in addressing them.