An Investor's Insights

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abrdn is a global investment company and asset manager, with around £40bn of real estate assets under management.

We asked Georgie to share her insights from an investor's perspective.

Why is ESG important for abrdn?

"ESG, and sustainability, has been on the agenda at abrdn for a long time.

ESG factors have always been important, both from a risk and opportunity perspective, and are analysed to determine materiality for investment performance. They are important from an opportunity perspective because they add value to our buildings. We recognise that climate change has become one of the most material ESG factors to investment performance, and we have been working hard to push the industry and policy-makers for action and play our part in tackling climate change.

ESG is also important for abrdn because it is of increasing importance to our investors. I think the interest from investors really started to ramp up following the Paris agreement in 2015 and has been increasing ever since."

What are investors asking when it comes to ESG?

"The ESG appetite of our investors vary with European investors often pushing on ESG the most.

But in general, investors are asking much more about climate risks, so about transition plans and physical risks, about how we're managing these risks, and about whether we have net zero plans for all our real estate assets.

That said, we are now starting to see the first questions being asked by investors about biodiversity and about the impact of investments in real estate on nature."

How do you answer those questions and provide assurance about the ESG credentials of your investments?

"It starts with our investment process, and making sure that we integrate ESG into our acquisition plans and into how we manage existing assets. If we can evidence that ESG is central to our whole approach when we look at new investments or existing portfolios then this gives investors confidence.

For certain property portfolios where investors have high ESG demands, we ensure additional levels of ESG analysis and have expert consultants to support that."

Are there particular certifications or accreditations that you look for when making investments?

"We have global investments, but as the majority of our investments are in the UK and Europe, the core certifications we use for assessing energy performance are EPCs. We recognise that EPCs are not perfect and require further standardisation from country to country but they do offer a broad application across Europe and these align to the SFDR and EU taxonomy regulation.

We also look for BREEAM and LEED as quality certifications for green buildings alongside WELL for demonstrating high wellbeing standards."

What do you look for when it comes to EPCs?

"For existing portfolios, and for new investments, we 'RAG' rate the EPC ratings: with EPC A being a dark green, EPC B and C being a light green, D and E amber and F and G being flagged as red.

Typically with new acquisitions, especially given the way the MEES regulations in the UK are evolving, we look for assets with an EPC B or A rating. Our refurbishment and development guidelines also set a standard of EPC B or A.

That's not to say we wouldn't take on a lower rated asset and improve it, but we would need to make sure a robust business plan was in place, run the future cash flows and be sure that the project would meet our investment returns."

With lower-rated assets, how do you think we can get more finance into those buildings?

"Regulation can drive investment, so we need to see the right policy and regulation in place to push that improvement.

But we need clear guidance from policy-makers about cost-sharing as ultimately the costs on improvements need to be shared between the landlord and the tenant. Investment needs to come from both sides.

There's also a key role for subsidies and tax reliefs to encourage investment."

You mention tenants, do you have any good examples of working with tenants?

"Yes, we engage with tenants to explore how we can work together to improve the ESG performance of our assets. One example is a tenant in one of our French retail assets who, because of increasing energy costs and their net zero carbon targets, wanted to move to an all-electric building by installing heat pumps. We agreed to pay half of the capital expenditure and negotiated to remove the lease break. It's a good example of the landlord and tenant working well together, sharing costs and removing reliance on fossil fuels to help meet net zero goals."

The Paris Agreement

The Paris Agreement is a legally binding international treaty on climate change. It was adopted at the UN Climate Change Conference (COP21) in Paris in 2015.

The aim of the Agreement is to hold "the increase in the global average temperature to well below 2°C above pre-industrial levels" and pursue efforts "to limit the temperature increase to 1.5°C above pre-industrial levels."

To limit global warming to 1.5°C, greenhouse gas emissions must peak before 2025 at the latest and decline 43% by 2030.

Are you seeing more cooperation with tenants generally?

"Definitely with the larger corporate tenants.

So, for example, if you look at the big supermarkets, many of them have their own net zero goals and they are looking at lots of ways to improve energy efficiency, which will help to reduce refrigeration costs as well as move away from gas. This means we're on the same trajectory, which makes the conversation much easier.

And also with solar PV, I think that's one area where we have the most engagement with our larger tenants; installing solar PV on roofs and then recharging the tenants at a lower cost than they would be charged from the grid. That's a really big win.

That said, working with smaller tenants can still be a challenge but then it’s about bringing them on the sustainability journey with us.”

What do property businesses need to do to be successful in attracting investment, or green finance?

“I think it’s important that property companies do their due diligence, so they really understand their asset: how is the asset performing today, where is it on the net zero carbon pathway, have you looked at the physical risks as well as the climate risks? And if the asset isn’t performing well do you have a robust plan in place and have you run all the figures?

On green finance, you will get better rates if you can demonstrate the green credentials of your buildings, although this only applies to assets that are already performing well or if you can show continual improvement through set KPIs.”

And finally, what challenges do you think lie ahead?

“There’s a range of challenges.

At a practical level, the way that benchmarks evolve can be a challenge. For example, we use CRREM, but CRREM has just updated all their targets, so we need to adjust to these new targets. Also the definition of net zero is always evolving and we need to push the industry to be clearer on that definition and ensure it remains appropriate and relevant.

The second challenge is understanding how decarbonisation is priced into valuations and is being understood and interpreted by the market. The science-policy gap shows the conflict that the market is currently in. The science tells us to limit global warming to 1.5 degrees above pre-industrial levels and the real estate net zero pathways are set on that, but current international policy commitments suggest we’re heading towards 2.3 degrees and the legislation isn’t in place to force the market to achieve the 1.5 net zero goals. This mean the market is somewhere in between, starting to price in decarbonisation but not enough to meet the science-based targets.

We’re still targeting 1.5 degrees, because we believe it’s the right thing to do. But we need to make sure that we’re not so far ahead of policy and regulation that we become uncompetitive. There can be large upfront costs involved in delivering net zero buildings, so we need to take a longer look at the net zero journey to make sure that we remain competitive as well as play our part in tackling climate change.”

What is the BPF Net Zero Pledge?

The BPF Net Zero Pledge commits BPF members to be net zero carbon by 2050 at the very latest. Becoming a signatory to the pledge requires three actions:

1. To sign up to net zero targets and plans
2. To commit to sharing research, knowledge and insights on an open-source basis
3. To support other signatories and the wider real estate sector to speed the transition to net zero

Sign Up. Share. Support.
#BPFNetZeroPledge