

Sustainability in real estate is a must-have to protect value and mitigate risks

It's no secret – or a poorly kept one if it is – but the real estate sector has a carbon emissions problem. It's not alone in this, and plenty of other key pillars of the global economy face the same challenge. But the fact remains that buildings account for more than one-third of global energy consumption and emissions.¹ This context makes it critical to decarbonise the sector – for environmental reasons in a bid to slow climate change, but equally, for hard-headed business reasons.

This twin need for developing sustainable real estate is driving change in the sector's landscape and beginning to bear fruit, as more and more green real estate projects are seen through to completion. And the benefits for real estate investors and developers are very real. In most asset types or sectors within real estate, and in a majority of geographies, it is no longer more expensive to build green. On the contrary, green design from inception can avoid costs during construction and reduce the operating costs of buildings once developed, creating attractive, lower-cost assets capable of generating greater profits. In short, sustainability enhances the financial performance of real estate assets during construction and operational phases of ownership.

Just as importantly, however, sustainability is becoming essential for real estate exits – both in terms of the upside and downside protection. Strong-performing real estate assets with environmental and social sustainability baked in can be more attractive and perform better at exit. Perhaps above all, though, they protect against asset depreciation and, in an extreme scenario, from stranded-asset risk. In a world focused on decarbonisation, where everyone from large corporates to investors have net-zero targets and decarbonisation pathways to meet, assets that are not sustainable present risk and have lower transaction value.

Green certification of sustainable buildings has become a hygiene factor – a necessary attribute rather than a unique selling point. The market has changed, and so have its baseline standards for what passes as acceptable real estate. Factor in the continuing regulatory tightening many markets are likely to see, and the direction of travel in the market is clear. The real estate world is, therefore, greening, and not in a superficial way. Developers cannot just rely on superficial green-design measures for scoring points – stakeholders see through these and are increasingly attuned to greenwashing. Successful real estate assets deliver on both the sustainable and financial essentials, driving meaningful environmental and social impact and, in doing so, contributing to the bottom line.

The measures that make a difference

Actis is focusing its real estate investments in Asia's "new economy". This means real estate assets aligned with four future-oriented global themes presenting strong growth opportunities: digitalisation, supply-chain transformation, health and wellness, and climate transition. Specifically, this means investing in assets such as data centres, industrial and logistics hubs, life sciences facilities, as well as the repurposing of older urban stock to better support the new economy. Our investments are targeted across a number of Asian markets that provide geographic and

economic-cycle diversification, including more mature markets, such as South Korea and China, and growth markets, such as India, Vietnam and Malaysia.

This approach gives Actis a variety of diverse investment opportunities to explore in terms of asset type and geography, but the focus on sustainability remains a constant. The exact sustainability plan undertaken for each project depends on the specifics of a particular asset and the opportunities available for sustainability features to drive the most added value, but generally speaking Actis focuses on three key aspects: resource efficiency, reducing carbon and resilient development. This approach allows Actis to maximise environmental as well as social impact across its real estate portfolio, but it is also a strategy that largely aligns with the wider real estate sector, with the industry broadly focused on energy, water and embodied carbon.

The focus on energy is both about the source of power and how efficiently it is used. This means looking at sourcing renewable energy, either wheeled via the grid or from behind-the-meter sources (e.g. rooftop solar) or through renewable-energy certificates. Developing properties with rooftop solar or, at the very least, installing a solar-ready roof, makes assets more attractive and, in certain subsectors, can be key to protecting from stranded-asset risk. Industrial and logistics properties without access to renewable energy, for example, create very real stranded-asset risk. But that is just one part of the equation on energy. Given the cost and carbon-emission implications of high-energy expenditure buildings, efficiency is also vital, and more buildings are now being developed to be highly energy efficient, too, through high-insulation design and materials, efficient appliances, and smart heating and cooling systems, for example, to deliver emission and cost reductions.

A similar resource-management approach is also increasingly being used for water efficiency to ensure buildings make as efficient use of water as possible. In the first instance, it means reducing unnecessary water consumption in buildings, but it is increasingly going further to recycle water on site. Beyond this, some developments are also looking at sustainable water management, for example, by installing sustainable water treatment systems, such as reed beds. This is all becoming increasingly important in light of growing water scarcity and water pollution. With careful planning and monitoring, efficient allocation and distribution of water resources can be put in place. This can take many forms, from the installation of water-efficient fixtures and appliances, such as low-flow toilets and water valves, to installing rainwater harvesting systems and recycling greywater for landscaping. Such measures not only contribute to water conservation and help future-proof buildings (again, protecting from stranded-asset risk) as sustainability standards in real estate continue to rise, but they also generate cost savings, helping to make the asset attractive for property owners and managers.

Following energy and water, the third big sustainability focus for the industry is embodied carbon, which refers to the amount of greenhouse gases released during the manufacture, transportation and construction of building materials. Developers, occupiers and owners are all concerned about embodied carbon given the need

to meet corporate decarbonisation commitments, so addressing embodied carbon forms a central part of the industry's efforts to mitigate climate change.

A range of options exists for reducing embodied carbon. Chief among these is the selection of sustainable, low-carbon materials for construction. It is thanks to these properties that sustainably sourced timber is making a real comeback as a building material. Likewise, new solutions, such as green cement and green steel, are beginning to be used, but given these are nascent, innovative technologies, they can encounter challenges in meeting building codes premised on older technologies and can obviously implicate higher costs.

This is not to say green materials are doomed, however. Far from it. As these solutions mature and scale, and as new technologies such as AI-driven proptech demonstrate the safety of green materials and underdesigned buildings, the sector will increasingly adopt such materials and, in turn, go further in tackling embodied carbon. In the here and now, however, there are plenty of actions developers can take to both reduce embodied carbon and generate cost savings through a combination of building design and supply-chain procurement work. In following a green design approach from the outset and adopting green building standards, such as LEED or BREEAM, developers can reduce embodied carbon by avoiding overdesigned buildings. Incorporating green space, for example, creates scope for biodiversity, limits the use of carbon-intensive cement and asphalt, and provides natural flood defences, which increase asset resilience. Procuring lower-carbon materials by using local or circular supply chains is also key. Local supply chains often provide a relatively straightforward way to reduce supply-chain transportation emissions and costs.

This supply-chain and procurement piece can deliver an out-sized impact not only from an environmental perspective, but also socially. Sourcing materials (as well as labour) locally within a market reinforces the positive social impact of a development, helping strengthen relations with local community and government stakeholders. Indeed, drawing on the local economy can help meet the KPIs of local authorities and facilitate the development and operation of real estate assets.

Actis takes a holistic approach to sustainability to deliver positive environmental and social impact across its investments. Our real estate assets are no exception to this rule.

Actis' approach to sustainability

As a global investor in sustainable infrastructure, Actis seeks the best risk-adjusted opportunities on a global level and looks to maximise these opportunities through our expertise as builders and operators, in order to drive compelling returns for our investors. Our deep expertise in not only dealmaking, but also physically constructing and operating real assets, sets us apart and is at the heart of our strong track record. But so is sustainability. Actis is playing an important role in accelerating the transition to a net-zero future, with a commitment to manage 100 percent of assets under management in accordance with a 1.5°C net-zero 2050 pathway, along with ambitious interim targets, such as having 60 percent of assets under management aligned with net-zero by 2030.

To achieve these objectives and deliver positive environmental and social impact, we invest in sustainable sectors and transform companies into sustainability leaders. This strategy is rooted in a

firm belief, backed by experience, that values drive value and that sustainability delivers financial performance for our investors.

The development of the Navi Mumbai Research District by Actis life sciences real estate platform, Rx Propellant, is a case in point. Navi Mumbai Research District is a first-of-its-kind life sciences R&D park in India, designed and purpose-built to attract leading corporate tenants from India's life sciences industry. To attract such tenants, Rx Propellant is working with the Actis sustainability team to incorporate energy-efficient architecture, cutting-edge wastewater management systems and environmentally conscious construction, all designed to meet LEED Platinum and IFC-EDGE Advanced Certification standards. The project's building facades will feature photovoltaic materials and solar PVs on terraces to generate low-cost, clean energy on-site. It will also incorporate the recycling of wastewater, with on-site sewage and effluent treatment plants, coupled with rainwater collection to meet 100 percent of nonpotable water requirements. In addition, the project has a climate-responsive design to reduce heat gain and optimise energy efficiency, it has an integrated waste-management approach for zero waste to landfill during both construction and operation, and it will provide EV-charging infrastructure to reduce transportation emissions.

These measures are designed to generate a strong positive environmental impact but also social impact, with the project targeting 80 percent local suppliers during construction and operational phases. Up to 800 temporary jobs are forecast to be created during construction, with more than 2,000 new permanent jobs likely to be created once the project is complete and fully leased. Rx Propellant's Navi Mumbai Research District project represents just one example of how Actis is investing in developing prime, sustainable, new-economy real estate. The sustainability features discussed are not nice-to-haves – they are must-haves, protecting asset value, minimising downside risk and enhancing the financial performance of real estate platforms by catering to the needs of corporate customers through best-in-class facilities and performance. This is what the future of real estate can look like.

Note: ¹ IEA, Buildings: <https://www.iea.org/energy-system/buildings>

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Actis is a leading global investor in sustainable infrastructure, delivering competitive returns for institutional investors and measurable positive impact for the countries, cities and communities in which it operates. Actis invests in structural themes that support long-term, equitable growth in defensive, critical infrastructure across energy transition, digitalisation transition, and supply-chain transformation. The firm's decades of global experience, operational know-how and strong culture allows it to create global sustainability leaders at scale. Since inception, Actis has raised US\$25 billion to invest in a better tomorrow. Actis is a signatory to the United Nations-backed Principles for Responsible Investment (UNPRI), an investor initiative developed by the UNEP FI. Actis has consistently been awarded the highest rating score in the UNPRI independent assessment. You can learn more about Actis at www.actis.is, or by contacting Sarah Douglas, director of communications and marketing at sdouglas@actis.is.



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