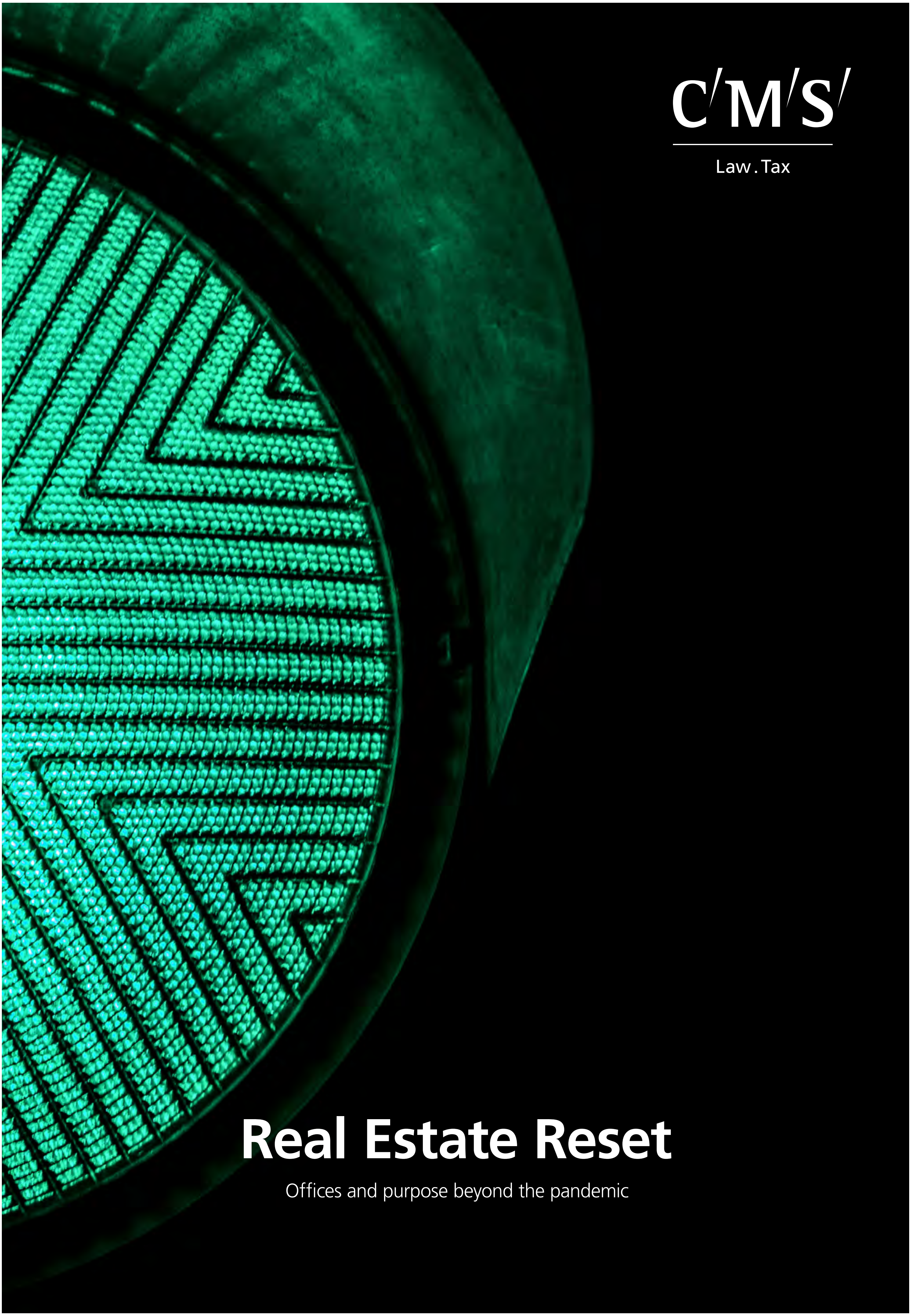


C/M/S/

Law . Tax

# Real Estate Reset

Offices and purpose beyond the pandemic

## Market Sentiment

### Out of office

**33%**

say the office asset class is appealing in the wake of the pandemic, as logistics (**84%**) and healthcare (**71%**) top the charts.

### London calling

**41%**

of real estate professionals now believe London is fairly valued, up from **36%** a year ago.

## Office Occupiers

### October opening

On average occupiers say they do not expect more than **50%** of their employees to return to the office until early October, with **15%** saying they will not return before 2021.

### Blended working

Office occupiers believe that a mix of home and office working is now the best option for employees' creativity and innovation (**46%**), productivity (**45%**) and motivation and enthusiasm (**47%**).

## Social Purpose

### An investment in purpose

**99%**

of global institutional investors say they articulate a corporate social purpose; they also believe a company with a social purpose will add **30%** to its value.

### Room for improvement

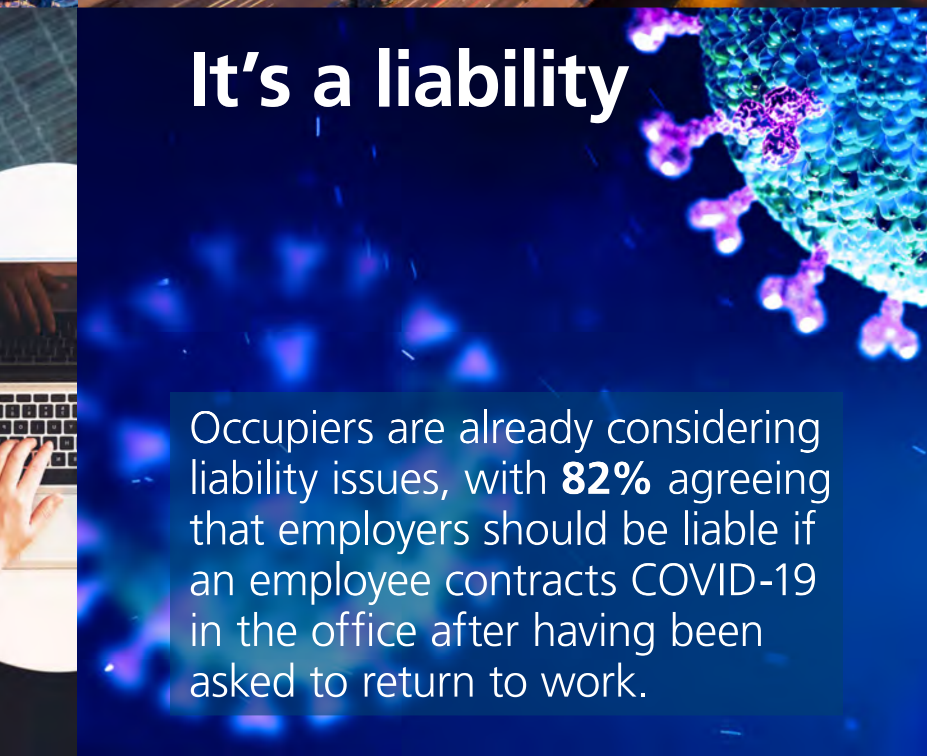
**21%**

of the real estate sector believes it needs to improve its environmental performance, diversity (**23%**) and social contribution (**19%**).

## Close to home

**22%**

predict Western European investors will return to local real estate markets, double the anticipated demand in 2019.



## It's a liability

Occupiers are already considering liability issues, with **82%** agreeing that employers should be liable if an employee contracts COVID-19 in the office after having been asked to return to work.

## Paying to go green

**65%**

of occupiers say they would be willing to take a pay cut to work in an environmentally sustainable building.

# Contents

# From pandemic to purpose

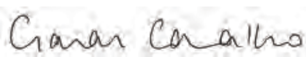
As we welcomed in a new year, the defining issue of the next decade looked set to be sustainability. The rise of ESG – Environment, Social, Governance – was no flash in the pan; it was now a guiding principle for global investors and institutions. Responding to the climate crisis was a priority. And then COVID-19 changed everything.

Few would have predicted quite how quickly the world would be turned upside down by a global pandemic, the like of which has not been seen for a century or more. The human cost and individual tragedies have been indescribable. The economic and social impact unprecedented. Cities have become ghost towns. Millions are working from home, not offices. Retail, leisure and travel sectors have been particularly hard hit.

And yet, in some ways, the events of 2020 have accelerated changes that were already gathering momentum. For the real estate sector there is now an opportunity to reset.

For the first time, our research this year polls not only over 240 leaders across the real estate sector, but over 1,500 senior office occupiers with decision making responsibility for property issues, and over 500 global institutional investors. It takes a detailed look at market reaction to the pandemic and the lasting impact it could have on the office asset class and the way in which we will adapt to our new working environment. We will also explore real estate's journey from pandemic to purpose, as sustainability and social impact set the agenda for the sector.

This is our eighth annual report where we look to the future, address key issues facing the real estate sector and explore market trends. We hope you enjoy reading it. If you'd like to discuss any of its themes in more detail, we would welcome a conversation.

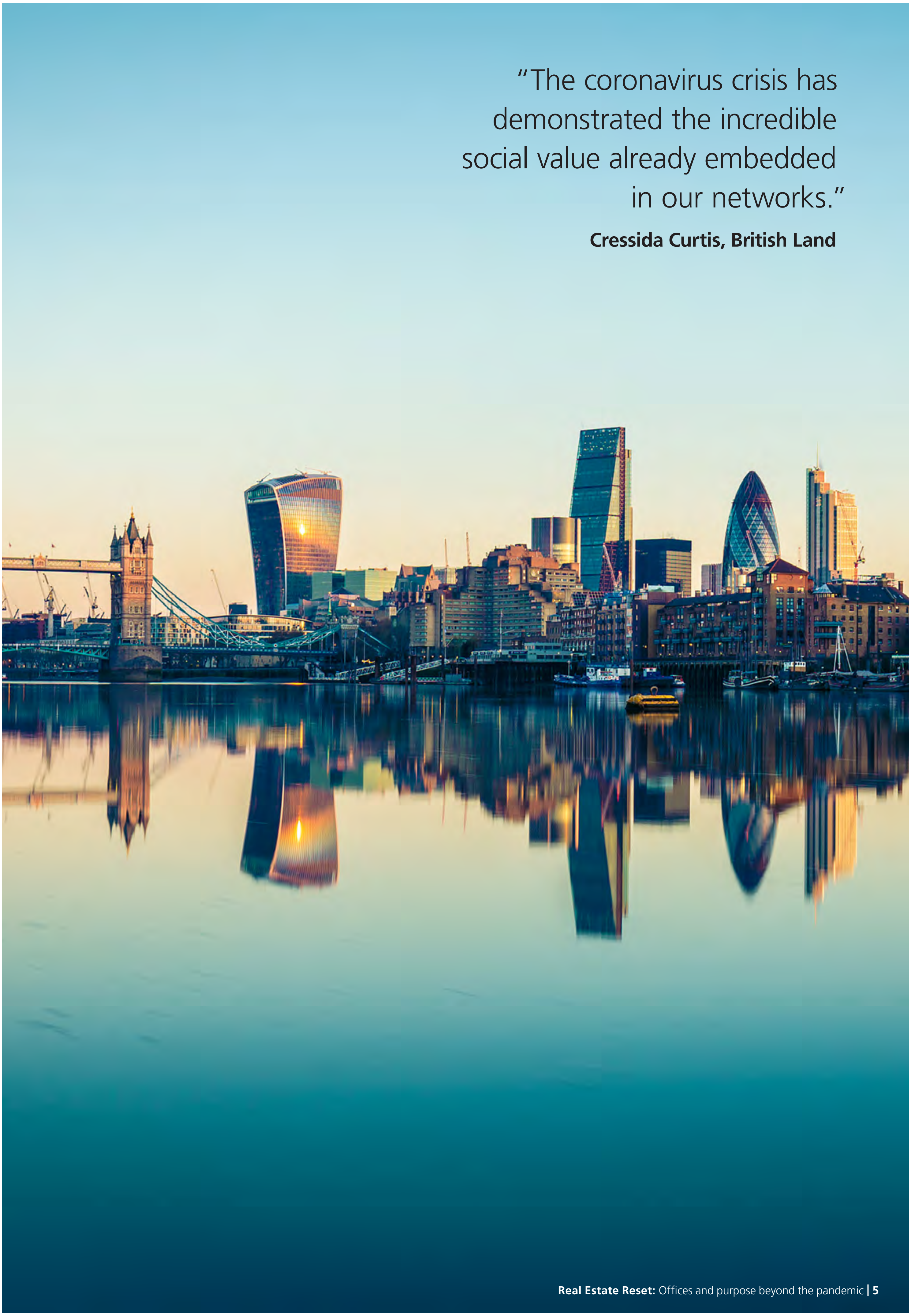


**Ciaran Carvalho**
*Head of Real Estate, CMS UK*

**t.** +44 20 7524 6152
**e.** ciaran.carvalho@cms-cmno.com
#RealEstateReset

"The coronavirus crisis has demonstrated the incredible social value already embedded in our networks."

**Cressida Curtis, British Land**



# Accelerated change: market response to the pandemic

For many, 2020 was set to be a year of great potential for the commercial real estate sector. Social, economic and technological forces were driving positive change. Continued investment in more diverse asset classes, innovation and a desire to build a more sustainable environment looked likely to be the key priorities.

The year started with cautious optimism in the UK, with Brexit on the way to being resolved after a resounding Conservative election victory. The Eurozone and Asian economies were growing, and the United States seemed primed for a pre-election economic boom.

What no one foresaw in the closing weeks of 2019 was a global pandemic, and a subsequent global recession triggered by lockdown measures putting a huge strain on the world's biggest economies.

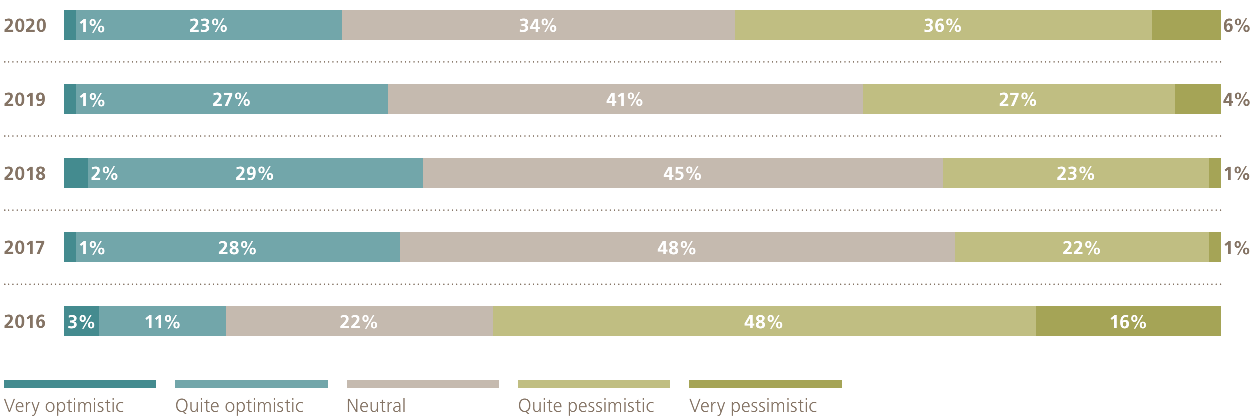
Whilst real estate corrections are inevitable every 10-15 years, the trigger for these corrections is nearly always different.

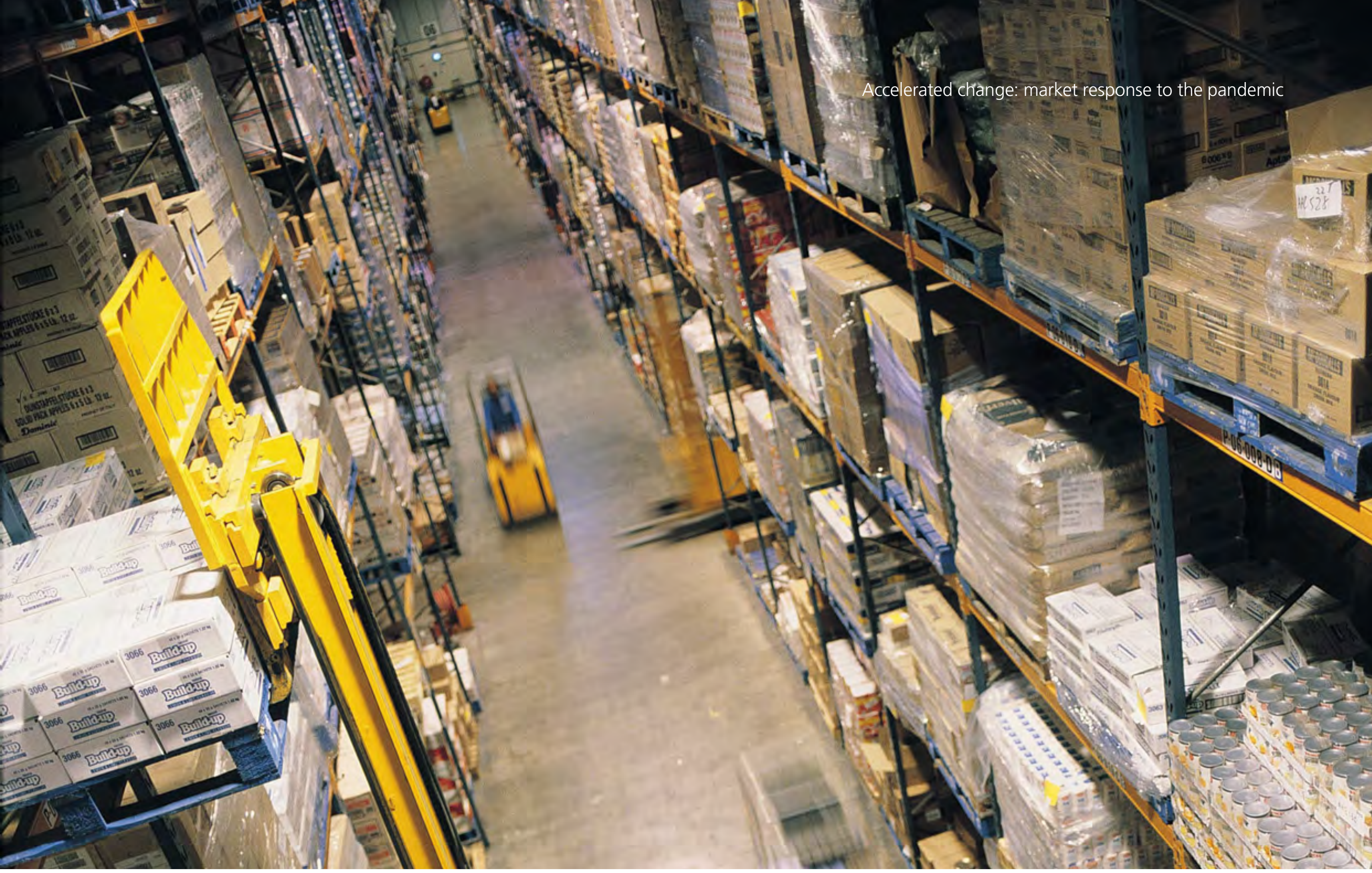
From rocketing oil prices in the 1970s to the development boom of the 1980s, to the dotcom crash of 2000-2001 and the global financial crisis of 2008-2009, the economic impact is always the same.

As a result of the pandemic, the first six months of 2020 have seen a sharp slowdown in activity around the world, and this is reflected in our survey of sector leaders who control assets worth hundreds of billions of pounds.

How far that optimism has been punctured is illustrated by our poll, with 42% of sector leaders saying they are pessimistic, compared with 31% in 2019 and 23% in 2018. Interestingly, however, optimism was at a much lower ebb after the Brexit vote in 2016 when a significant 64% said they were pessimistic about the UK real estate market.

Q. How optimistic or pessimistic do you feel about the UK real estate market in the short term? (Real Estate Sector)






## Reallocating asset classes

Each year we see some asset classes suffer more than others and others grow in appeal. The pandemic has caused unprecedented disruption across the industry and appears likely to accelerate investment trends and themes.

Distribution and logistics take the top spot again (see chart on next page), with 84% describing the asset class as 'appealing' compared with 64% back in 2016. The trend we identified in our report on logistics, **Box Clever**, has intensified as internet shopping replaced much of the high street at the peak of lockdown.

Weekly online retail sales have doubled against the previous year in some parts of Europe, and in the UK they have risen from 20% to above 30% – with many predicting that this will continue to be the norm. In response, traditional retail is already reinventing itself by focusing on placemaking, experiences, and flexible leases and use of space.

According to Savills, take-up of UK industrial & logistics space of units of more than 100,000 square feet hit record levels in the first half of 2020, reaching 22.4 million square feet, or 66% above the long-term average.

Healthcare is second in asset class appeal with a significant increase to 71%, up from 58% last year. An ageing population continues to drive demand and investment interest. The pandemic adds further impetus to an asset class that is at the forefront of the fight against the virus.

The Private Rented Sector (PRS) and residential continue to be strong performers, with 62% saying residential is appealing compared with 46% in 2016 and 67% of respondents favouring PRS compared with 58% in 2019.

Investors are buoyed by the fact that whatever the world looks like after the pandemic, people will always need somewhere to live – and there is an increasing view that homes in the future may need to be bigger to accommodate increased levels of home working.

The resilience of the residential sector is demonstrated by the fact that 153 super-prime residential transactions worth more than USD 10 million took place between 1 March 2020 and 22 June 2020 across 12 leading global cities – with a total value of USD 3.2 billion – at a time when, in many countries, the pandemic was at its most severe.

## Q. Please rate the following asset classes on their level of appeal (Real Estate Sector)


Despite retail bouncing back last year, in what some saw as a turning point, the pandemic has clearly had a dramatic impact on the sector. Retail only appeals to 3% of sector leaders polled, compared with 35% in 2016. Even though retail continues to be one of the biggest components of the real estate landscape, only 3% of interviewees forecast it to be a feature of growing occupier demand in the next five years, as highlighted on page 11.

## The office market, but not as we know it

The outlook for offices has dropped sharply, with only 33% saying this asset class is appealing this year compared with 60% in 2016 and 54% in 2019. This marked a resurgence after a period of decline. In this report we will explore the factors that have influenced this asset class. In many respects, the issues of wellbeing, technology and the 'experiential office', highlighted in our report **Smart. Health. Agile.**, are now coming to the fore.

The market is now divided between the bulls and the bears. The bulls believe that Central London prime offices will thrive in the coronavirus era, with a premium placed on the highest specification developments – offering healthy buildings and 'wellness' to occupiers, or, as an increasingly service-focused real estate sector now calls them, customers or clients.

The bears believe the office market will be hit by mass home working, with city centres across the world left empty, as companies like Google, Twitter and the Royal Bank of Scotland stall their return to the workplace.

It's fair to say the office market isn't 'dead', but businesses need to continue to adapt to changing circumstances and new ways of working.

Optimism remains, evidenced by Savills who do not believe that rents will fall as sharply as they did after the global financial crisis. Few companies are expected to jettison their offices completely whilst the pandemic continues to evolve and hopes for a vaccine continue to grow.

Across Europe supply and demand fundamentals represent a more landlord-friendly market, with the average European office vacancy rate at 5.2% compared with 7.9% in 2007 and Paris and Berlin central business district vacancy rates below 2%.

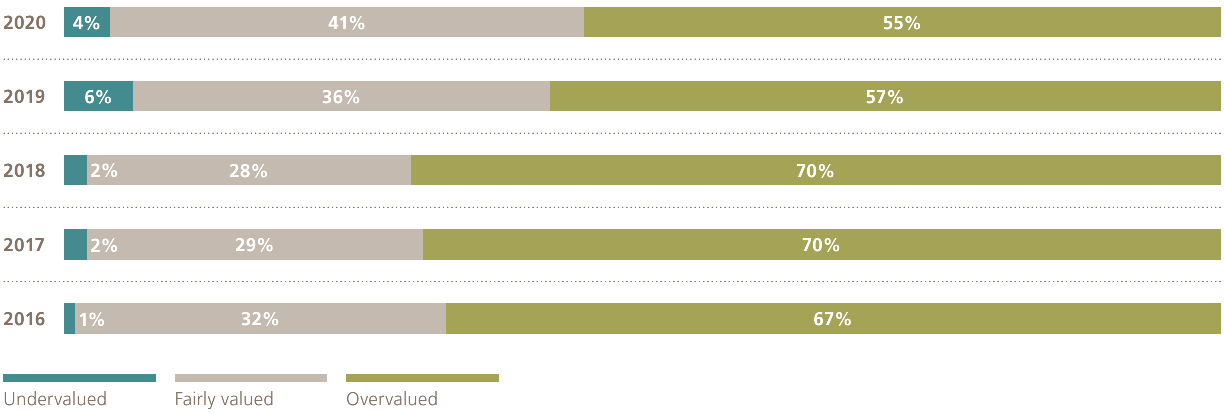
## London – fair game?

For the second year running there has been an increase in the number of respondents who believe the London real estate market is fairly valued, 41% compared with 36% a year ago.

Not surprisingly, according to CBRE's Second Quarter 2020 Central London Office Marketview, central London investment volumes fell to GBP 781 million – the lowest quarterly total since 2009.

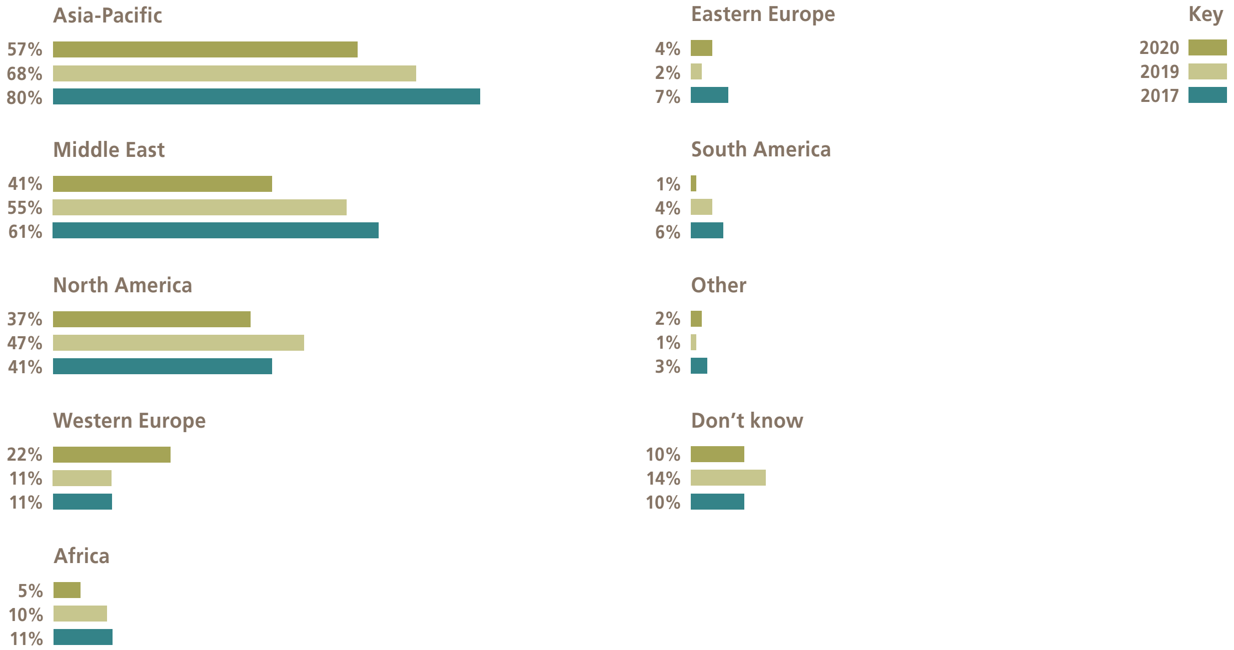
However, the increasing perception of fair value suggests activity in the London market could come back strongly, particularly if political calls to return to the office are acted on.

Q. What is your current view of the London real estate market? (Real Estate Sector)




## Investor appetite

### Q. From which regions do you think we will see an increased amount of investment into UK real estate in the next two years? (Real Estate Sector)




Western Europe has seen a big jump in anticipated foreign direct investment in UK real estate over the next two years, with 22% of sector leaders expecting an increase.

This is likely due to limitations on long-distance travel in 2020, triggering falls in anticipated investment from Asia-Pacific and the Middle East. However, we may find travel restrictions create growth in virtual site inspections, with innovative virtual and assisted reality technologies increasingly used to support the buying process.

Notwithstanding this, July saw one of the most eye-catching deals of 2020 so far, with Hong Kong-based Link REIT paying GBP 371 million to Hines for Morgan Stanley's Canary Wharf London HQ. Singaporean investor Sun Venture also entered the market to acquire prestigious West End offices at One New Oxford Street, a deal that CMS advised on.

## Predicting occupier demand

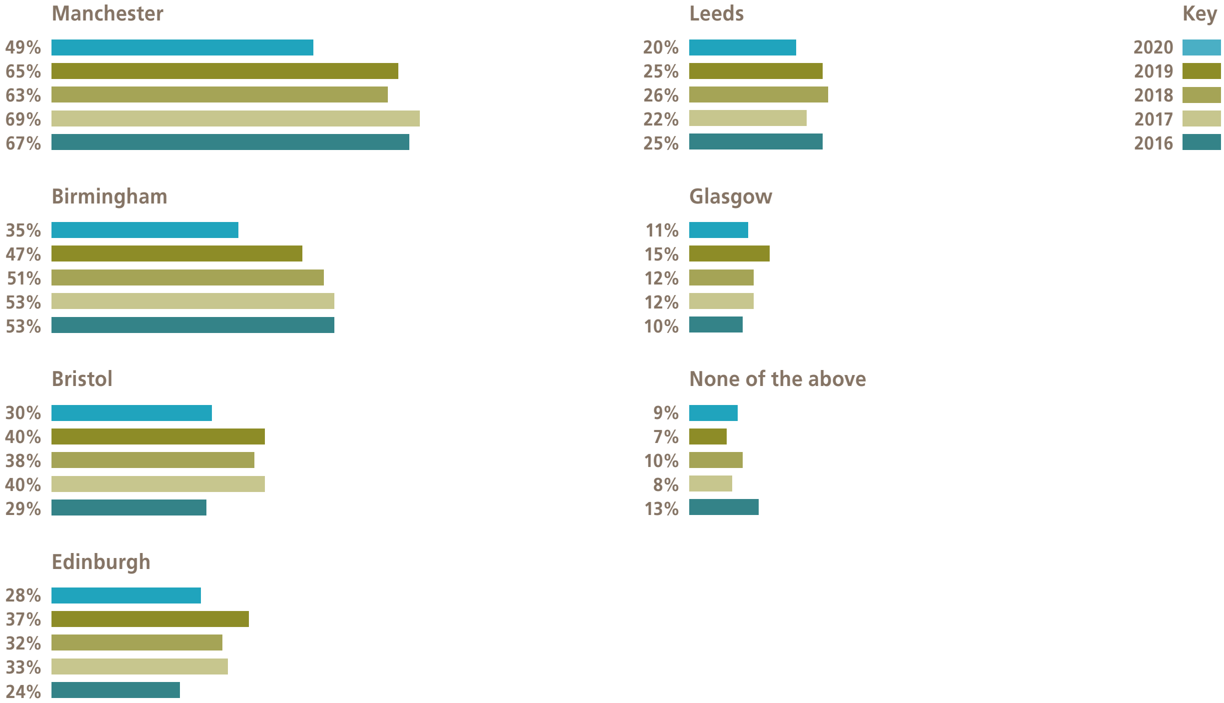
When we asked real estate leaders where they expected occupier demand to come from over the next two and five years, their views echoed what they felt about the attractiveness or otherwise of individual real estate asset classes.

Extraordinarily no one thought retail would generate occupier demand over the next two years. Technology and distribution dominate the occupier demand landscape, although there is some doubt over further growth in office demand from the tech sector. Tech occupier demand will more likely come in the form of innovation and laboratory space, with out of town campuses predicted by some to make a comeback.

This trend and the pandemic may explain why healthcare has seen the biggest growth in anticipated occupier demand, with 55% of sector leaders expecting a rise compared with 32% in 2016 and 44% last year. Primary Health Properties, the UK's leading listed investor in healthcare properties, has outperformed many of its better-known rivals in 2020 and is now worth almost GBP 2 billion, with investors expecting to see increased public sector investment in healthcare in the next five years.

## Q. Where do you see occupier demand coming from …

## Q. Of the "big six" regional cities listed below, which do you think are particularly appealing as investment prospects? (Real Estate Sector)




## Regional demand

Britain's regional cities have proved increasingly attractive to investors over recent years. However, they all saw declines in appeal in our sector poll this year, with Manchester, Birmingham and Bristol seeing the biggest falls.

This is likely to be due to the reduced appeal for city centre offices and retail as a whole. The pandemic not only affected London, but regional cities were also hit as hard.

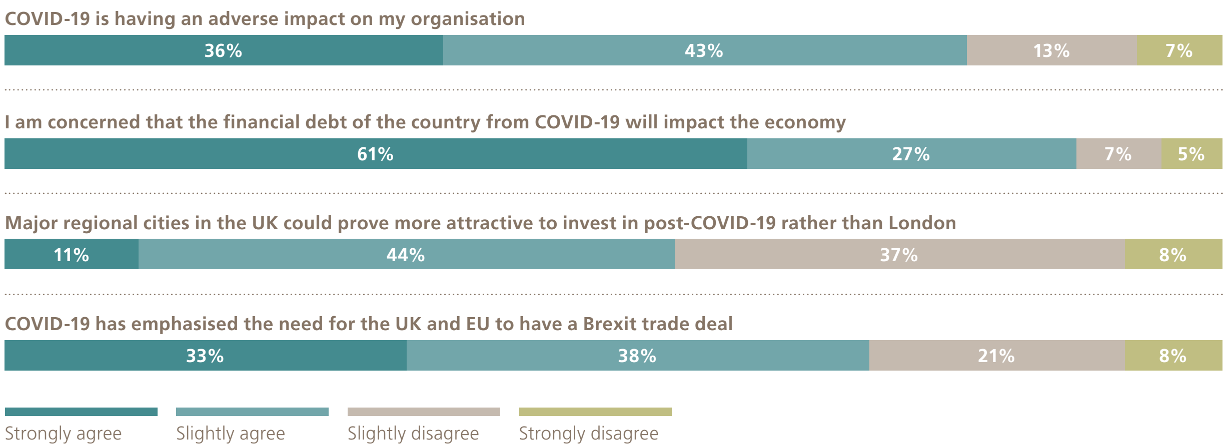
However, forecasts suggest continued rental growth for regional cities, which have a fundamental under-supply of new office space.

## Brexit and bolstering the economy

While Brexit has taken a back seat in the headlines for obvious reasons, the prospect of another 'no deal' cliff edge looming in December is not an appealing one to our real estate sector leaders. 71% of them agree that COVID-19 has made a trade deal between the UK and the EU even more important.

Unsurprisingly the sector is also overwhelmingly concerned (88%) about the impact on the economy of national debt incurred as a response to COVID-19. 80% also acknowledge that the pandemic crisis is already having an adverse impact on their organisations.

## Q. How strongly do you agree or disagree with the following statements? (Real Estate Sector)



# COVID-19: working from home or living at work?

As market reaction highlights, offices are one of the asset classes feeling the shock of the pandemic most acutely. This year, in addition to almost 250 leaders in the real estate sector, we surveyed over 1,500 senior office occupiers across the UK, Europe and Asia to explore how they see the world of work changing and whether COVID-19 will accelerate existing workplace trends and re-establish the office as a more sustainable centre for our social working lives.

Our poll of office occupiers shows a world that no one would have foreseen only nine months ago. At the beginning of 2020 home working was an option for just 10% of the workforce, but that has changed dramatically now.

On average, occupiers predict that they will not have more than 50% of their employees back in the office before mid-October. Occupiers in Singapore, one of the first countries to feel the impact of the pandemic, are the most pessimistic, saying the majority will not be back in the office before mid-November. France is one of the most positive countries, expecting more than half to return to the office by mid-September, a prediction that just a few weeks on may seem overly optimistic as the country confronts a second wave.

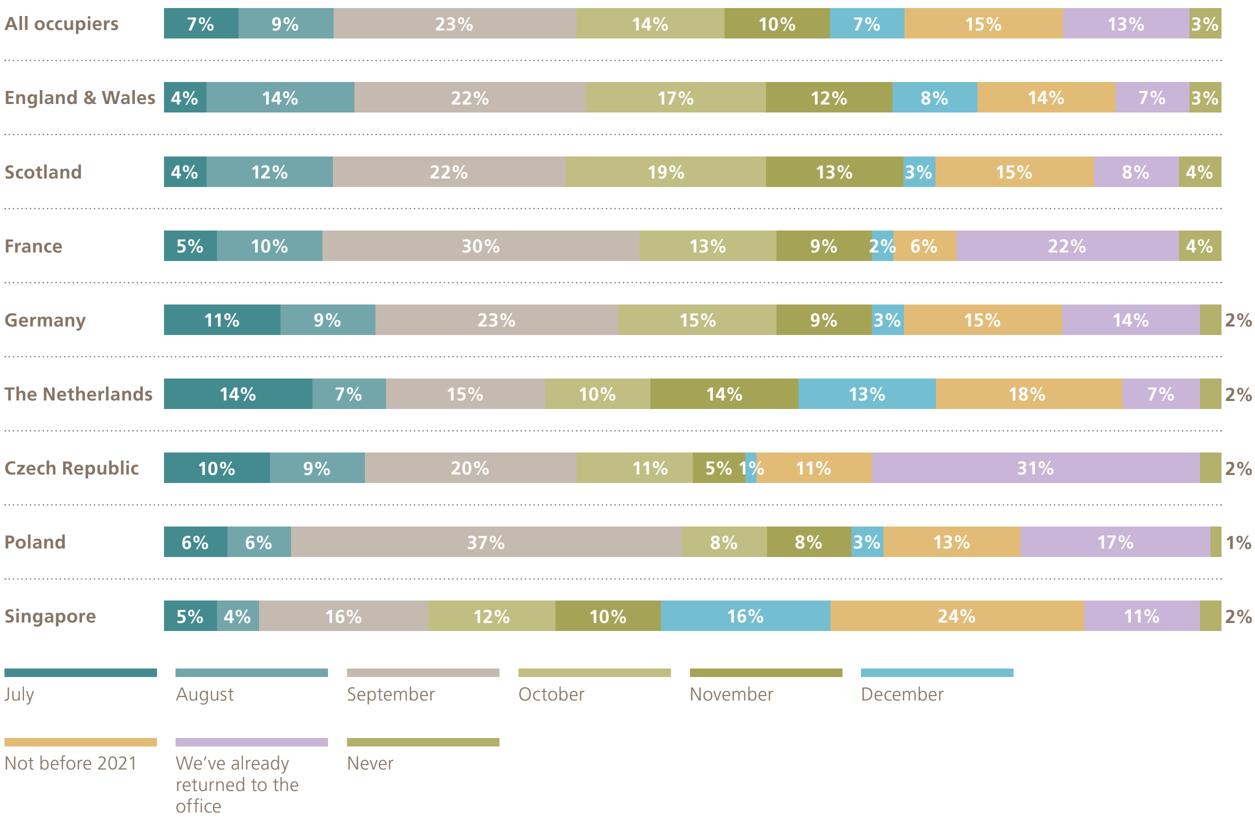
A fierce debate is now raging between home working fans who avoid their commute, have found a better work-life balance and believe they are operating more efficiently, and fans of the office who miss the sociability and innovation of the workplace, the separation between work and home and, above all, the variety afforded by meetings and interaction with people, other than on Microsoft Teams or Zoom.

In corporate Britain the debate is raging as well. HSBC has said only 20% of its UK workforce will return to the office in September and NatWest Group has told 49,000 employees that they will continue to work from home until 2021.

According to Germany's Institute for Economic Research, more than half of German companies want their employees to continue to do some form of working from home after the pandemic.

Office occupiers believe that a mix of home and office working is the best option for employees' creativity and innovation (46%), productivity (45%) and motivation and enthusiasm (47%).

## Q. When do you expect your organisation to have most (i.e. >50%) of your employees return to the office? (Occupiers)




However, at some companies, the tide is beginning to turn. Barclays chief executive Jes Staley, hit the headlines early in the lockdown by saying that the era of packing 7,000 people into its Canary Wharf headquarters may be over.

By July, however, Staley had softened his tone, saying: "We want our people back together, to make sure we ensure the evolution of our culture and controls, and I think that will happen over time."

The balance between home working and the office, whichever form it takes, looks likely to shift once and for all. Whether regional hubs or city centre HQs, offices are adapting in ways in which our 2017 report **Smart. Healthy. Agile.** highlighted, including a much greater focus on physical wellbeing, mental wellbeing, and a sense of community.

## Q. Average date: When do you expect your organisation to have most (i.e. >50%) of your employees return to the office? (Occupiers)

## The office – a sense of community

There is a growing view that people are forgetting what they like about the office, and many who have returned have been surprised by how invigorated they feel. Governments across Europe are now encouraging people to return to the office.

On one level, people are relieved that video technology works, but many people have become drained by its use, and, after years of focusing on wellbeing in the workplace, fears are growing about the impact of working from home on younger employees in particular.

Learning by osmosis, eavesdropping on office gossip, after-work drinks and work-based interaction are what people miss. Lack of motivation, inefficiency, procrastination, lack of feedback and uncomfortable surroundings are what many are having to endure. This may have a disproportionate impact on young people.

A survey of 3,000 office users by JLL showed that 58% missed office life, with people under 35 showing the strongest desire to return at 65%.

In the end, most people are opting for what they hope will be a compromise: more time spent at home and also time back in the office. This approach would certainly ease one of the bugbears of many people working in offices around the world: the dreaded commute.

A blended approach seems to be the ideal solution. A significant number of occupiers believe that a mix of home and office working is the best option for employees' creativity and innovation (46%), productivity (45%) and motivation and enthusiasm (47%). However, they also recognise the office has the greatest impact when it comes to integrating with colleagues (43%) and creating a sense of human connection in the workplace (46%).

An environment where people work more flexibly from home or work could have all sorts of benefits, including improved wellbeing, less pressure on public transport, a reduction in $CO^2$ emissions and a more sustainable future. We may even see a resurgence of previously hollowed-out suburban areas.

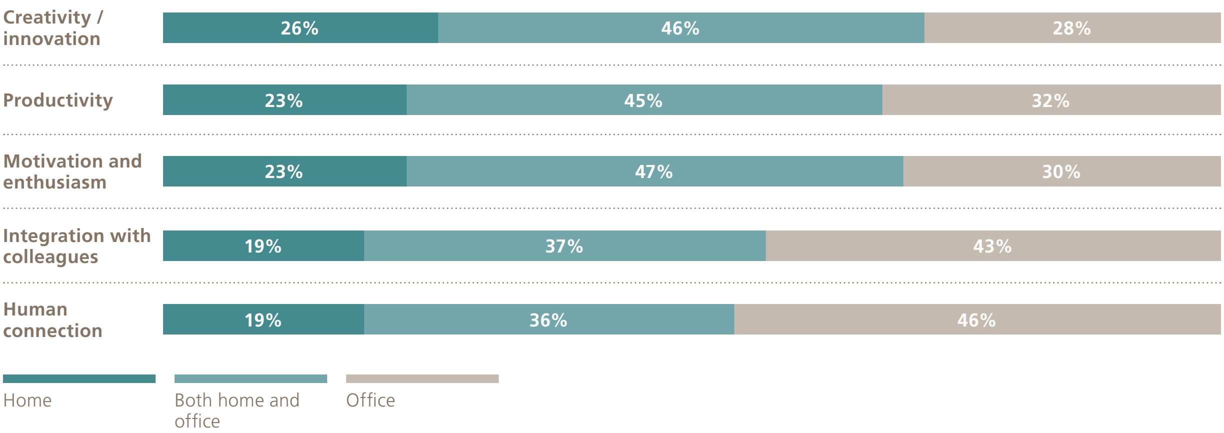
The 'social' aspect of offices for the people who use them and the communities that surround them, the 'S' of ESG (Environment, Social, Governance), looks set to become an essential component of the office offering, not just a 'nice-to-have'.

## A safe return?

We asked both our occupiers and real estate sector leaders how in practical terms they saw the office changing as a result of the pandemic. Reassuringly both groups were largely in agreement with the importance of physical and mental wellbeing.

But there are significant contrasts. More than a third (35%) of occupiers want to see more COVID-19 screening of visitors to their offices, something that only 27% of real estate professionals agree with. On the other hand, sector leaders are more concerned than occupiers about increasing cleaning regimes (49% vs 39%) and reducing the density of occupation of offices (41% vs 31%).

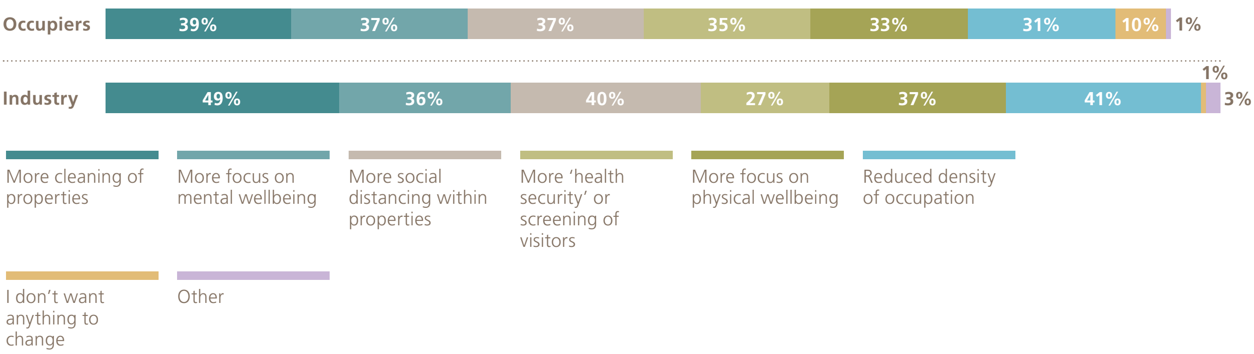
### Q. Which of the following do you think is best for your employees in the given work environments? (Occupiers)



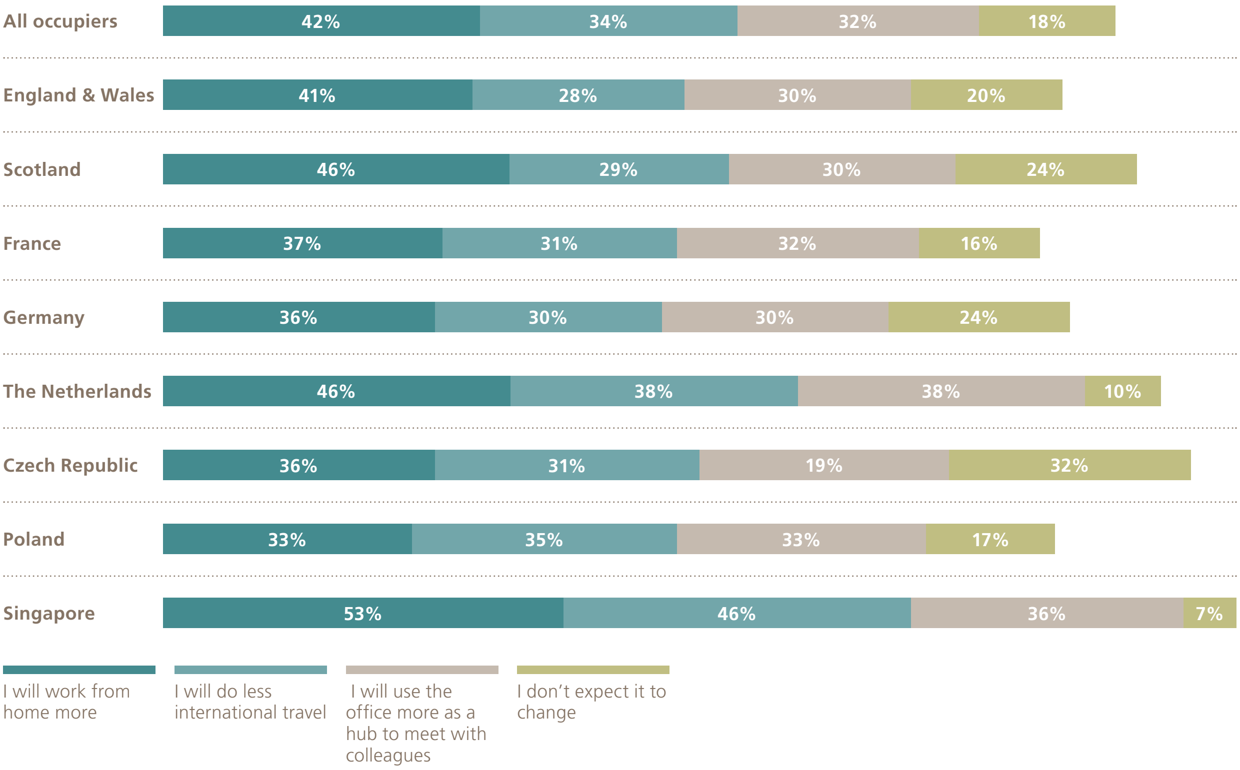
"The 'social' aspect of offices for the people who use them and the communities that surround them, the 'S' of ESG (Environment, Social, Governance), looks set to become an essential component of the office offering, not just a nice-to-have."

Q. As a consequence of the COVID-19 pandemic… How do you want your place of work to change? (Occupiers)

Q. As a consequence of the COVID-19 pandemic… How will you change your approach to property development and management?' (Real Estate Sector)



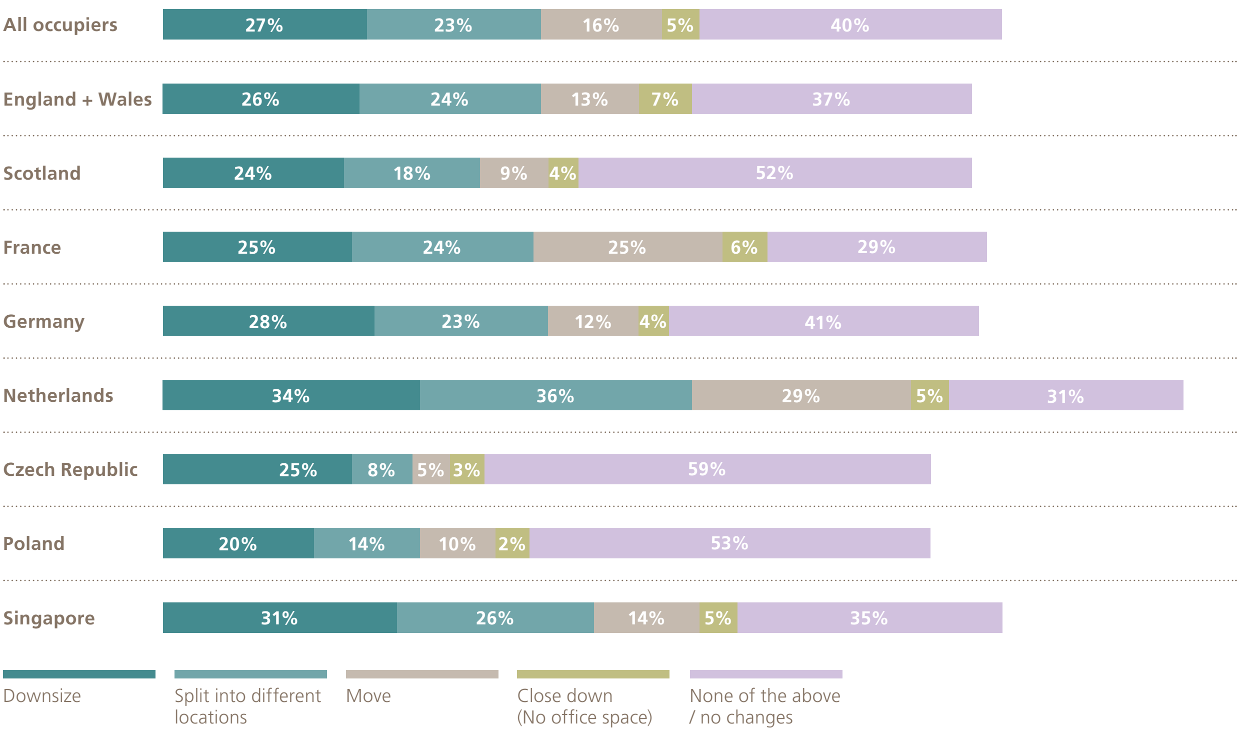
## Q. How do you expect your own working life to change in 2021? (Occupiers)




As our occupier research reveals, as a result of COVID-19, people around the world are anticipating a very different future for offices.

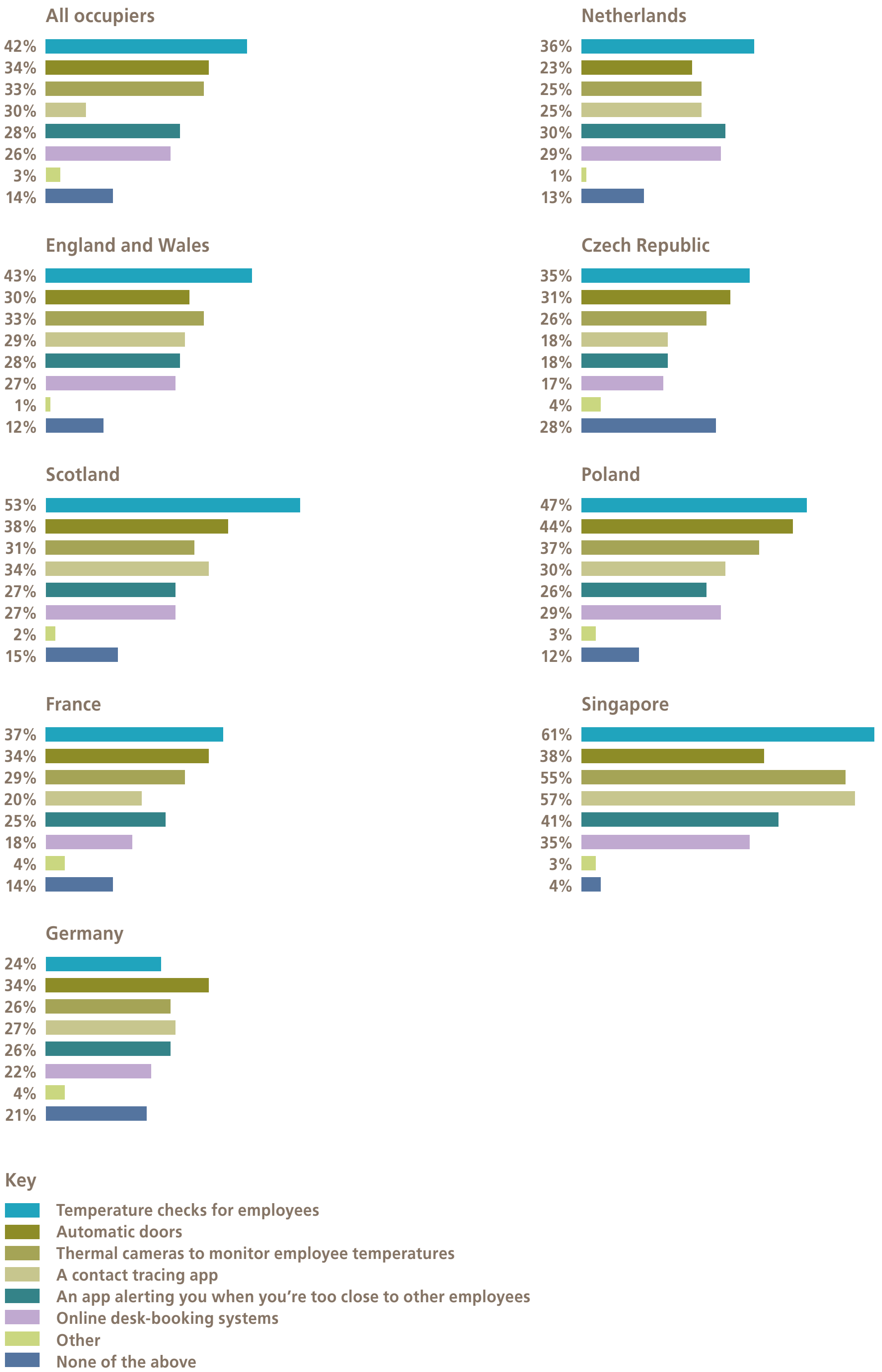
Downsizing offices is a serious consideration in Singapore (31%) and The Netherlands (34%), while the Dutch also lead the way in thinking about splitting offices across different locations (36%) in line with the idea of creating regional hubs. Dutch (29%) and French (25%) occupiers are most likely to consider moving offices as a reaction to COVID-19, while a small, but significant, number of occupiers in England & Wales (7%) may take the radical step to close offices and move entirely to homeworking.

## Q. As a result of COVID-19, what are you now likely to be doing with your office space? (Occupiers)



Singapore is at the forefront when it comes to measures people want to see taken to protect employees, with its office occupiers desiring temperature checks (61%), thermal cameras to monitor employee temperatures (55%) and contact tracing apps (57%). These figures far outstrip demand in the rest of the world, although occupiers in Scotland are also particularly keen to see temperature checks for employees (53%).

## Q. Which of the following technologies would make you feel more reassured to return to your office? (Occupiers)



Another sector trend being forecast is the rise of flexible office space. With companies unsure of their future lease commitments, there has been an increase in interest in flexible offices, with WeWork reporting an improvement in its fortunes after a difficult 2019. Pi Labs founder Faisal Butt says:

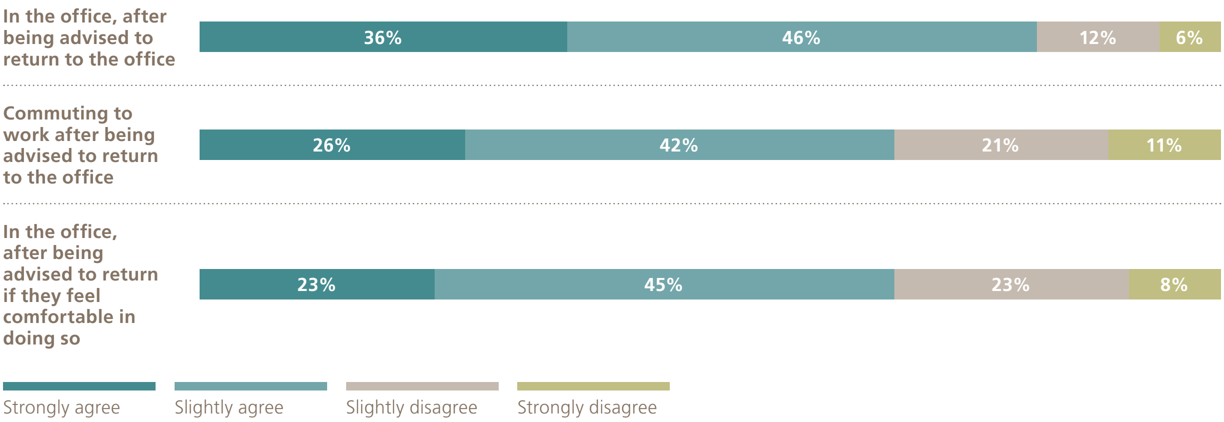
"Knight Frank estimates that 135 square feet per employee is necessary to ensure social distancing is maintained.

"Their research showed that, on average, offices in The City have apportioned 126 square feet per employee over the past five years. Rather than committing to new space, it is likely that businesses will instead turn to the flexible office market given the constraints preventing them from accommodating all their employees at once."

It is clear that something has to change for a large-scale return to work to be a success. Occupiers are already considering liability issues, with 82% agreeing that employers should be liable if an employee contracts COVID-19 in the office after having been advised to return to work. Surprisingly 68% felt liability should rest with the employer even if COVID-19 was contracted on public transport during the commute to work.

In all cases most occupiers believe it is their employer's responsibility if they contract COVID-19 on returning to the office – explaining why so many companies and, in particular, public sector organisations with strong union representation are reluctant to return.

## Q. How strongly do you agree or disagree with employers being liable if an employee contracts COVID-19 in the following scenarios? (Occupiers)





Operating both during and beyond the lockdown throws up novel and unexpected corporate crime and liability issues for businesses. Resuming or increasing business operations as restrictions ease entails risk. A resumption plan addressing logistical and operational complexities will be essential, but this should also take account of legal risks as part of overall risk mitigation measures.

This high-level comparative guide from CMS sets out what you need to know across multiple jurisdictions. You can access it **here**.

Our global poll of occupiers shows strong regional disparities but a global consensus from the world's office workforce: they are happy to return to the office, but only after striking a new deal with their employers on flexibility and the conditions they work in.

# The coronavirus crisis has demonstrated the incredible social value already embedded in our networks

**Cressida Curtis**
Head of Corporate Affairs & Sustainability, British Land

**Does British Land have and articulate a social purpose?**
Everything goes back to our purpose of creating Places People Prefer. We know the way places are designed and managed can impact how people feel and behave towards each other and want our places to be those where they can be themselves and thrive.

It's a principle of generating wellbeing – creating and providing places that support cohesion and connection.

For example, at our Fort Kinnaird shopping centre in Edinburgh, we manage the city's leading shopping centre not just by providing 70 shops, restaurants and cafés but because we instil a sense of nature and include natural materials and green areas between the shops, that people find attractive.

It's about our behaviour too: at one of our shopping centres one of our colleagues saw a child crying, found the boy couldn't afford the football top he yearned for, and provided a small sum to help him to buy that top. The word of mouth recommendation from a gesture like that makes people want to come back.

**How has British Land's understanding of social purpose changed during the pandemic?**
The coronavirus crisis has demonstrated the incredible social value already embedded in our networks – we really are immersed in the communities we serve. We found we could connect people really quickly, helping them to navigate the problems they were facing.

For example, we are a long-standing member of the East London Business Alliance (ELBA), which builds the connection between businesses and local communities. Since the outbreak started, we have been contacting the people who've been helped into employment through ELBA over the last year and understanding what support they may need to stay in employment through the crisis so that positive impact doesn't disappear.

Large companies – and particularly large property companies – used to turn up in a place and say 'this is our sustainability or our community programme: take it or leave it'. Now we say 'you've got ideas, we have ideas – let's work together.'

Our central belief in ESG is that it is a collective effort – no single person or organisation has every piece of the jigsaw puzzle. We need to collaborate to find solutions.

Why turn up and do what we have been doing for the past 10 years? We need to change it up and build on the ideas coming through. This will also mean bright, diverse people will want to be a part of the real estate sector.

**What will be the extra cost to occupiers of leasing sustainable buildings?**
Some agents estimate that a BREEAM Outstanding or Excellent building will translate to a 10% higher rent, and occupiers can make savings that outweigh that extra cost.

They will make considerable savings in energy use, and in buildings designed with wellbeing at the core they can see reduced sickness and increased productivity in their teams.

There is also a big reputational issue for companies to consider these days. For many, particularly in high growth sectors, the space they occupy may be the largest element of their environmental footprint, and there is real commercial benefit to reducing that impact, particularly in terms of attracting talent.

**What are British Land's best examples of sustainability in action?**

We are proud of our record overall, having achieved a 73% reduction in our carbon intensity against a 2009 baseline and supporting 1,745 people into jobs through our Bright Lights skills and employment programme.

But we want to go further, and in June committed to a net zero carbon portfolio by 2030 and the launch of new social commitments, including partnering with local stakeholders, education and employment initiatives in an extension of our Local Charter.

At our 1 Triton Square office development at Regent's Place we are turning a 1990s office building into a net zero embodied carbon building. This has involved a whole new approach to development, including refurbishing the entire façade, removing thousands of glass panels and creating a pop-up factory in Essex to renovate them rather than just discard and replace them, which would be the norm in a redevelopment.

We are also introducing a Transition Fund though which we'll offset embodied emissions associated with developments through accredited schemes and finance the retrofitting of our standing portfolio.

Investment in our Transition Fund will in turn lead to lower energy costs and closer relationships with our customers, who will ultimately reap the benefit.

1 Triton Square, Regent's Place

"Large companies – and particularly large property companies – used to turn up in a place and say 'this is our sustainability or our community programme: take it or leave it'. Now we say 'you've got ideas, we have ideas – let's work together'."

# We want to help people to find their life’s purpose

**Jaz Rabadia MBE**
Sustainability & Social Impact Director, WeWork Europe, Middle East and Africa

**Please tell us about your background and role at WeWork**
I am a chartered energy manager and a degree qualified mechanical engineer with 13 years’ experience in retail energy and sustainability management. In 2016, I was awarded a royal honour by the Prince of Wales for my services to the energy sector.

My role at WeWork is to ensure that the impact that we have on the environment is minimised in the cities we operate in. We strive to provide inspiring workspaces that also promote health and wellbeing for our employees and members.

WeWork’s ‘superpower’ is designing and occupying incredible buildings with a diverse member community who share our sustainability and social impact values.

**How does WeWork promote social value around its locations?**
We want to help people to find their life’s purpose – and part of our social impact programme in EMEA is to create inclusive opportunities for underserved communities, including female founders, the refugee population and the BAME community.

We support companies and individuals by providing them with WeWork space and connecting them to other members working from that same building, who might then offer their own skills to help or even provide business or employment opportunities.

We work with organisations like Generation, which prepares, places and supports people into life-changing careers, the UN Refugee Agency UNHCR and the Entrepreneurial Refugee Network.  They help us to run impactful programmes for us to work together on and we agree on set targets and outcomes.

Working with these organisations is one reason why our employees and members join us at WeWork, as we create opportunities for them to get involved in the programmes.

**How does WeWork support sustainability?**
WeWork brings more people to local neighbourhoods, creating economic activity for local businesses. Research from our 2019 Global Impact Report shows that 70% of our members globally did not work in the neighbourhood prior to joining our location, bringing more prosperity to those places.

From the report research we also found that 76% of WeWork members walk, bike or use public transport to get to work, and 40% of members who used to drive alone to work switched to a more sustainable form of transport. Some of our buildings also provide bicycle storage racks and showering facilities to encourage members and employees to cycle.

How we operate our locations is also a significant part of how we can minimise our sustainability impact. A lot of effort goes into maximising the efficiency of our heating, ventilation and air conditioning systems. We also install LED lighting, metering and movement detection sensors – it’s the basics of energy management but applied across the portfolio to deliver the best possible performance.

**What has WeWork done to ‘go the extra mile’?**
We are committed to being fully carbon neutral by 2025 – this means addressing our carbon emissions through energy efficiency, purchasing renewable energy and credible carbon offsets and helping our suppliers do the same.

We have also worked to remove single-use plastic items from our daily buildings operations and have brought back reusable milk bottles in London, saving over 400,000 single-use plastic bottles from being used.

**How did WeWork tackle the COVID-19 pandemic?**
We have put in place extensive measures to help to create safe and comfortable environments in our spaces, to meet member expectations around social distancing and sanitisation.

In March 2020 we launched WeWork for Good to support members and local communities during the pandemic. We realised that we are in a unique position to help non-profit organisations and government agencies on the front line of the pandemic who needed short-term workspace. Organisations we helped included cancer charity Marie Curie in Manchester, Paris hospital trust operator AP-HP and FareShare UK in London – the charity fighting hunger and food waste.

# Social places: purpose and ESG

The pandemic is set to change our workplaces forever. But as a major contributor to climate change, the real estate sector was already changing. Combined with pressure from institutional investors and the rise of ESG, the sector's impact on the environment, society and local communities has never been under this much scrutiny. Our research highlights just how relevant these issues are as social purpose soars in importance as the world confronts COVID-19.

## Global institutional investors take the lead

In addition to over 240 leaders in the real estate sector and over 1,500 occupiers, this year we also canvassed the views of over 500 global institutional investors who are setting the pace in real estate on ESG issues.

Our poll showed that 99% of global institutional investors articulate a corporate social purpose, while the property sector (79%) and occupiers (76%) are not as advanced.

Major investors like Blackrock, Aviva Investors and Axa Investment Managers have thrown down the gauntlet to the sector to raise their game on ESG issues – or face the withdrawal of their investment support.

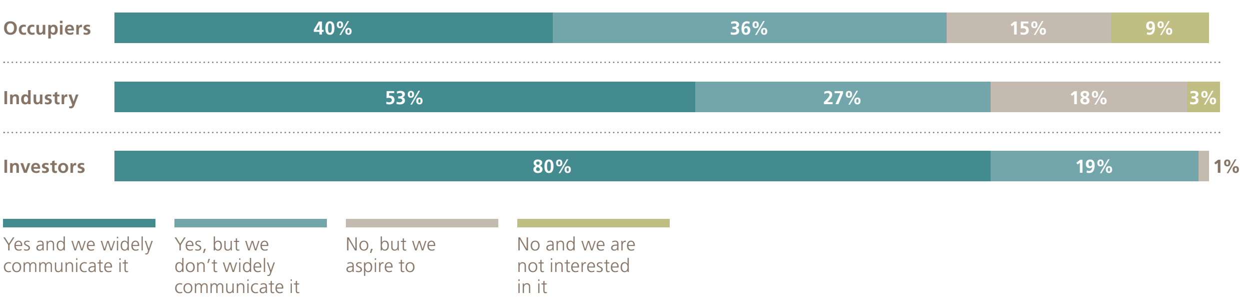
Blackrock chief executive officer Larry Fink is in the vanguard of global investors' drive for greater progress on ESG issues, saying in January that Blackrock would get tough on groups that are slow to act on climate change, and signalling that it would vote at company meetings on the issue.

By July Blackrock said it had taken voting action at the annual meetings of 53 companies over climate issues so far in 2020, largely through voting against the re-election of directors.

The organisation is one of the biggest investors in the UK listed real estate sector and is just as vigilant over social value as environmental and governance performance.

So, for senior real estate executives ESG could get personal – even career-threatening.

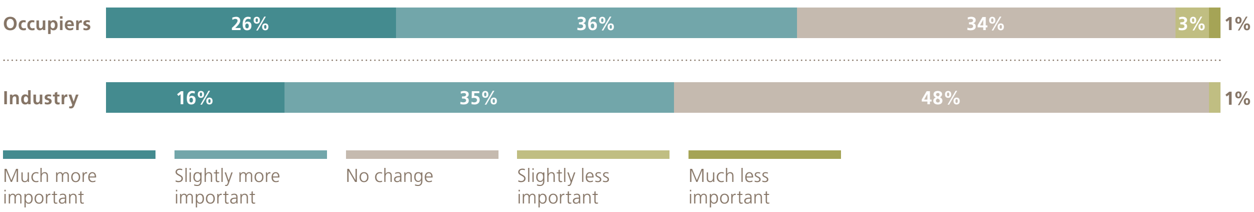
### Q. Does your company have and articulate a corporate social purpose?



The pandemic saw corporate social purpose soar in importance overnight. As people around the globe clapped for carers, companies stepped up to the plate too, finding reserves of goodwill and energy to raise large sums for charity, support local communities and in many cases waive executive pay.

In our poll, 62% of occupiers said corporate social purpose is more important now, and 51% of property sector respondents agreed.

## Q. How has the importance of corporate social purpose for your company changed since the outbreak of COVID-19 pandemic?




Within the UK property world, SEGRO donated GBP 10 million through its Centenary Fund towards local good causes.

CBRE created a working group to help the NHS identify suitable properties within close proximity to an NHS or private hospital which could be occupied by the NHS for the duration of the COVID-19 pandemic.

Landsec set up an GBP 80 million relief fund to help its customers who are most in need. The fund is to be used to support food and beverage customers, for which GBP 15 million has been ring-fenced, equivalent to three months' free rent. They also committed GBP 500,000 to existing charity partners.

St. Modwen Properties committed to top up all salaries of employees on furlough to ensure everyone is paid their normal salary in full and, at the same time, the board voluntarily agreed to accept a 20% reduction in pay and fees.

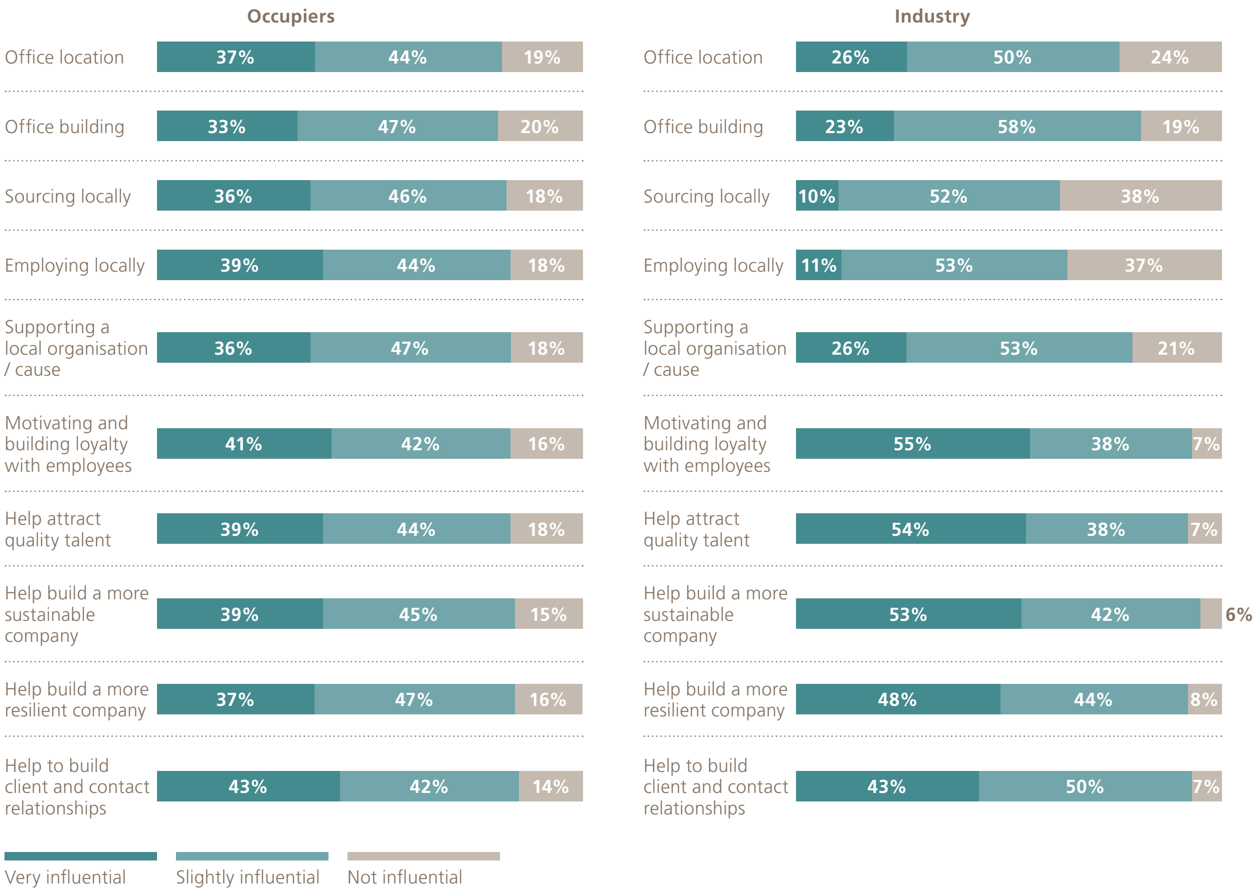
Taylor Wimpey said its executive directors would take a voluntary 30% cut in base salary and pension for the rest of the coronavirus lockdown, among other remuneration changes. Non-executive directors took a 30% reduction in fees for the same period.

The property sector, more than occupiers, saw corporate social purpose as a way to motivate loyalty among employees and attract quality talent.

By contrast, more than three times as many occupiers considered social purpose as being very influential when it comes to sourcing and employing locally. The positive impact a business and its buildings can have in its local community has clearly been brought into focus as a result of the pandemic.

> ““ESG is a collective effort – no single person or organisation has every piece of the jigsaw puzzle. We need to collaborate to find solutions.”
>
> **Cressida Curtis, British Land**

Q. How influential do you think corporate social purpose is upon the following?
For companies occupying offices, how influential is corporate social purpose on the following?




> "Because of the realisation that the crisis was caused by something unsustainable, we simply have to shift to a more sustainable built environment."
>
> **Clayton Ulrich, Hines**

# From a sustainability perspective, we look at this as an existential crisis

**Clayton Ulrich**
Senior Vice President, Hines

## How would you define the Hines approach to ESG?

It's in our DNA and has been a fundamental part of our business since the foundation of the company. We aspire to be a sector leader in sustainable development and encourage our partners to do the best to collectively pioneer new approaches and technologies, maximising the environmental and social value of every building, every investment. Environmental and social best practices have always been closely aligned with Hines and everything we do – long before the ESG acronym became such an integral part of real estate parlance.

## What are the biggest issues the industry faces in addressing the challenge of ESG?

Real estate is not a small business. We are not creating a single product. From retail in Dublin to offices in India and logistics in Spain, every market and every asset brings its own set of issues and challenges – whether they be physical, cultural, economic or policy and planning. We also can't work in isolation. Major projects involve working in partnership with our investors, tenants, the local authority and wider supply chain. Our vertically integrated approach, which combines ground-up operating expertise and local market presence, certainly establishes us in the driver's seat of major projects to develop an asset which meets the expectations and needs of all our stakeholders, and of course makes a positive contribution to its surrounding community.

## How does Hines articulate its social purpose?

It starts at the very top with our owners' genuinely philanthropic nature and commitment to developing buildings that make a positive contribution to the community. We are a US-based global company with a portfolio spanning 205 cities and 24 countries. But it's our local knowledge and relationships on the ground which truly help us connect with and understand the communities in which we are investing. Here in Houston, the three million-square-foot Galleria is a fantastic example where we integrated a mixed-use scheme with the community. The complex helped create the southwest zone of the city, bringing new and exciting amenities, while acting as a catalyst for the improvement of local infrastructure. We have capitalised on this experience to adopt a similar philosophy for developing large-scale mixed-use urban schemes which interact with and complement the local communities. The pioneering Porta Nuova mixed-use project in Milan and most recently Cherrywood – the largest new sustainable greenfield urban development in Ireland – are excellent examples of this approach, where making a positive physical, environmental and social impact on local areas is paramount.

## Can you give some examples of environmental features and techniques you are adopting as part of your sustainable development?

We are seeing increasing demand for our expanding all-timber framed product T3 – which stands for Timber, Transit and Technology – utilising renewable all-timber construction to create a vintage aesthetic and warehouse environment with the efficiency and amenities of new construction.

We are also exploring innovative ways of advancing new technologies to reduce our carbon footprint, including embracing the use of new materials to reduce the environmental impact. We have begun to use drones to help us project manage, which is increasing both our accuracy and efficiency. From construction to the operations and management of the building, our focus is to harness the latest technologies to work with our partners towards net zero carbon and net zero energy.

## What impact do you think the pandemic will have on the future of ESG in real estate?

It's too early to answer that question with any degree of accuracy. At Hines, we had a pandemic plan as early as 2003 which we actually updated last year, and no we don't have a crystal ball!

As a real estate company, there is nothing more important to us than people; their lives and quality of experience in our buildings. The pandemic has accelerated the health and wellbeing trend we were already seeing grow before and will now become a critical part of our ongoing operations and engineering of buildings.

From a sustainability perspective, we look at this as an existential crisis and, combined with other global shifts such as climate change, it is bringing ESG front and centre. The need to demonstrate resilience, flexibility and adaptability throughout our built environment is fundamental.

We have seen more investor interest around ESG in the last six months than ever before. Because of the realisation that the crisis was caused by something unsustainable, we simply have to shift to a more sustainable built environment.

# Our overriding aim is to integrate ESG into our decision making at all times

**Dan Grandage**
Head of ESG, Real Estate, Aberdeen Standard Investments

**Please tell us about Aberdeen Standard and your role there**
Aberdeen Standard is one of the largest active managers in the UK and Europe as a whole, and I head the ESG Real Estate team which leverages a dedicated 20-strong team across the group, with a further 30+ ESG specialists on the investment desks.

Each fund has an annual business plan that assesses ESG risks and opportunities, and I personally have the opportunity to check and challenge what our real estate funds are doing as part of the Investment Strategy Committee.

I also sit on the global management team for Aberdeen Standard Investments real estate division, ensuring that ESG is considered as part of our business management as well as investments.

My approach has been to ensure that ESG is truly ingrained in the thinking of our investment team. Both within Aberdeen Standard and among our clients, there has been a huge behavioural shift over the last 18 months or so.

There has been a large increase in the hours spent every week talking to clients, and my team are integral to all our new product launches. Aberdeen Standard Investments has to embrace ESG as a good corporate citizen, but our clients also want us to embrace it and their policy holders certainly do as well.

**What is Aberdeen Standard's overall approach to ESG?**
Our overriding aim is to integrate ESG into our decision making at all times.

If an acquisition doesn't fit our criteria, I can vote against that on the Real Estate Investment Committee, but if my team doesn't support that acquisition it's unlikely it would have made it to the committee anyway. We are an important part of the appraisal and the underwriting process.

One of our key innovation ideas is our unique ESG Impact Dial, a bespoke solution for investors that enables us to dial our ESG aspirations up or down based on our investors' desired outcomes.

The dial allows us to measure every asset against 21 material factors, from environment and climate to demographics, technology and infrastructure, to governance and engagement and beyond.

Our house standard is the absolute minimum hurdle we seek to achieve, and influences the assets we buy, how they are managed and future plans for the asset.

But our funds also go much further, on a sliding scale on the dial from avoiding risk or harm to benefitting stakeholders right up to advancing innovative solutions.

Some investors want to be innovators in environmental solutions and others prefer to focus on social value and demographics – the ESG Impact Dial can measure against all those aspects.

**What are Aberdeen Standard's longer-term responsibilities?**
The ESG agenda will only become bigger and more important. For example, how much do we need to spend today to hit new goals in five, 10 or 15 years? It's important to remember that hitting short-term financial goals as an approach is unlikely to align with hitting longer-term ESG goals.

Because of this, we see ourselves as curators or stewards of buildings, meaning that we are always managing with the long term in mind.

**What is the best example of your ESG strategy in action?**
Our AIPUT fund is making great strides and has established a strategic target of achieving carbon neutrality by 2025. It has taken the important step of

helping to make the airports, which are key to its warehouse portfolio, cleaner, safer and more vibrant for local communities.

Every year, AIPUT will review its carbon emissions and apply a carbon price to ring-fence a sum of money to support abatement projects. In 2025, AIPUT will offset any residual emissions using 'Gold Standard' credits, minimising the need to offset as much as possible.

The team are achieving this through enhanced warehouse design, solar photovoltaics installation, building future transport and logistics technology into site masterplans, and aggregating small initiatives to improve operational energy efficiency on a big scale.

The Farmiloe Building, Farringdon

"It's important to remember that hitting short-term financial goals as an approach is unlikely to align with hitting longer-term ESG goals."

## How important is important?

Investors are taking the lead in recognising the importance of sustainability, as well as social value across our three polls.

The difference between global institutional investors and the real estate sector itself is stark. When asked how important an environmentally sustainable building is to office workers, 32% of the real estate sector say it is very important, compared with 42% of office occupiers themselves. By contrast, a substantial 77% of institutional investors considered sustainable buildings as very important, signalling how vital this issue is for those looking to protect and grow their investments in real assets.

2020 started with the World Economic Forum stressing that ESG issues represent the top three global risks in terms of impact.

Investment management giant State Street's Center for Applied Research says real estate investors around the world are already seeing the negative impacts of sea level rises on their investment portfolios.

Research shows that real estate properties across the United States that are exposed to sea level rises are currently selling at a 7% discount compared to similar properties with no exposure.

State Street also believes that leasing efforts are benefitting from highlighting properties' ESG attributes, including energy efficiency and lifestyle or wellness amenities.

Our research highlights that occupiers consider working in a sustainable building to be of major importance and are increasingly steering towards environmentally-friendly buildings – with BREEAM or LEED certification – to help their bottom line, particularly in terms of recruitment of younger people.

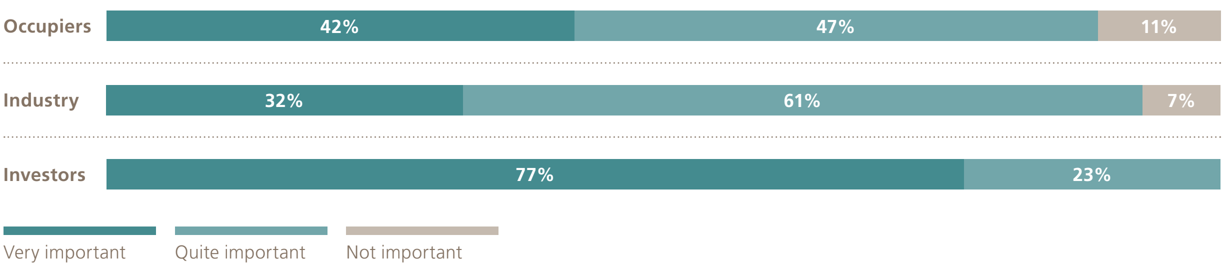
In its annual US Green Building Adoption Index CBRE says that across the 30 largest US office markets about 4,700 buildings (or 41% of commercial space) have now been certified as 'green'.

Another reason major corporates favour sustainable buildings is that they tend to be designed by the best architects, who are more likely to take on a commission if it fits in with their sustainability ethos.

There is a major disparity between what the real estate sector, occupiers and institutional investors think the costs of occupying a more environmentally sustainable building are. While the majority of each group recognises there will be some cost increase, 39% of investors believe the increase will be substantial, compared with just 8% of the real estate leaders we polled and 23% of office occupiers.

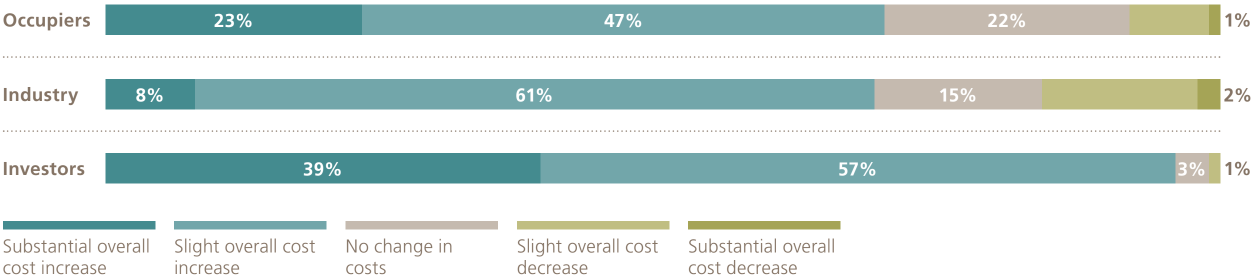
It is hard to say who has the more realistic view. Perhaps the real estate sector is being overly optimistic, or perhaps, having a closer knowledge of the underlying assets, it has a more pragmatic and realistic view of the cost of the 'greening' of buildings. There are also cost and environmental considerations around the impact of new developments compared with the refurbishment of existing assets.

### Q. How important is working in an environmentally sustainable building for you? (Occupiers)
### Q. How important do you think office workers consider working in an environmentally sustainable building to be? (Real Estate Sector)
### Q. How important do you consider environmentally sustainable buildings to be? (Investors)



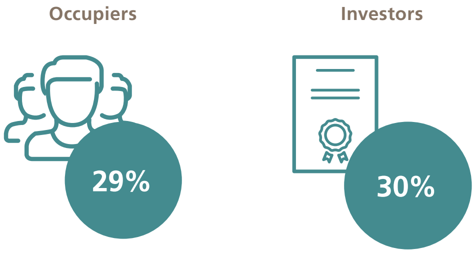
Q. Taking everything into account, what is your impression of overall costs for your company if you were in a more environmentally sustainable building? (Occupiers)

Q. Taking everything into account, what is your impression of overall costs for occupiers of environmentally sustainable office buildings? (Real Estate Sector and Investors)




But on the biggest question of all – what extra percentage of corporate value would you attribute to a company if it had a social purpose and used this to help guide decisions and actions – global institutional investors and corporate occupiers agree.

Q. Average percentage: What extra percentage of corporate value would you attribute to a company if it had a social purpose and used this to help guide decisions and actions?




> "Returns may not be instant, but these ESG assets will be much more sustainable in every sense whilst other assets may become stranded."
>
> **Harry de Ferry Foster, Savills**

# Sustainability is integral to our business and operations

**Esther An**
Chief Sustainability Officer, City Developments Limited

### Can you please tell us about City Developments Limited?

City Developments Limited (CDL) is a leading global real estate operating company with a network spanning 106 locations in 29 countries and regions. Listed on the Singapore Exchange, the group is one of the largest companies by market capitalisation. Our income-stable and geographically diverse portfolio comprises 24 million square feet of residences, offices, hotels, serviced apartments, shopping malls and integrated developments.

### How long have you been leading the company's sustainability strategy?

In 1995 I joined CDL with the main task of setting up its public relations portfolio to enhance CDL's branding and image. As a company's reputation, branding and goodwill are built on good corporate governance, risk mitigation, sound ESG performances and product responsibility, it was a natural progression for me to grow from a PR practitioner to a CSR and sustainability professional.

With growing concern and knowledge about the threats of climate change and the global paradigm shift to a low-carbon economy, my portfolio has grown by leaps and bounds over the past two decades and in 2014 I assumed my current role as CDL's Chief Sustainability Officer.

### How important is ESG to City Developments Limited?

Sustainability is integral to CDL's business and operations, as illustrated in and aligned with our ethos of "Conserving as we Construct" since 1995. Our company has proved that the strategic integration of ESG presents a strong business case, establishing a unique value proposition for CDL, while strengthening our reputation and trust amongst stakeholders and the community. Our early adoption of green buildings and innovation has placed us in a strong position to address present and future climate challenges. The progress we made in integrating ESG strategically across our value chain has earned CDL global recognition on 12 leading sustainability benchmarks. We are proud to have earned a number of prestigious accolades which recognise our climate strategy and commitment, and underscore CDL's positioning as a sustainable investment of choice.

### How would you articulate the company's approach to ESG?

Our ESG-centric vision has built a sound foundation to mitigate climate-related business risks and is set to unlock new capital and business opportunities as we enter a new decade. Research has shown that more corporations are using ESG considerations as a lever to lower risk and thus factoring it into their acquisitions. 2020 is also a crucial year for addressing the Sustainable Development Goals (SDGs) that set targets for the world to become safer, healthier, fairer and more sustainable by 2030. To achieve these ambitious goals, both policymakers and businesses share the same level of responsibility to mitigate and adapt to the climate emergency, which makes it vital for all to work together to form a strong force for good. As a pioneering force in sustainability, CDL's strong track record in ESG performance, guided by our four key pillars of strategy – integration, innovation, investment, and impact – will enable us to forge ahead in the new climate economy, future-proofing our business and sustaining growth in the right manner.

### Which of your developments do you think best encapsulates your approach to sustainability?

Based on its international profile and awards it continues to receive, CDL's flagship building Republic Plaza (RP) in Singapore has set a benchmark for green buildings and represents our longstanding commitment to sustainability. Since its completion in 1996, RP has maintained its Green Mark Platinum standard via regular tracking and enhancements.

In 2019, RP was revamped after an extensive SGD 70 million Asset Enhancement Initiative (AEI). The renovation involved a major makeover, with sustainability a key consideration in the AEI, as increased lift operations reduced energy consumption by 18%, while saving 4,000,000 kWh of energy, or an annual saving of SGD 870,000.

**How has the company adapted its ESG focus during the COVID-19 pandemic?**

In these challenging times, supporting vulnerable families and communities is vital. To support Singapore's social service agencies in delivering critical services to vulnerable communities, CDL made a SGD 400,000 donation to The Invictus Fund. We also committed over SGD 30 million in rental relief and support for our tenants.

Our hospitality subsidiary, Millennium & Copthorne Hotels Limited (M&C) pushed out its global campaign "We Clean. We Care. We Welcome." to ensure guests have a safe hospitality experience.

**Where do you see the future of ESG for the company?**

The global pandemic and climate emergency have accelerated the global ESG movement. Driven by investors, financial institutions and consumers, this transformation has seen climate and ESG funds outperform their peers in the recent market downturn.

To further build resilience and long-term sustainability for the environment, communities and people, we remain committed to setting ambitious targets and building a larger ecosystem by extensive engagement with the value chain and the community.


"Driven by investors, financial institutions and consumers, this transformation has seen climate and ESG funds outperform their peers in the recent market downturn."

Republic Plaza, Singapore

# The scheme has breathed new life into the district

**Andreas Prokes**
Joint Owner of the Karimpol Group

**Can you please tell us about the Karimpol Group?**
We are a privately held real estate development company with a portfolio of commercial assets across Central and Eastern Europe which we have built over the 30 years we have been in business. We have completed more than 500,000 square metres of commercial projects with a pipeline totalling over 250,000 square metres under development. Office buildings in the Czech Republic and Poland account for the majority of our projects, and we have a number of business parks and logistics facilities across the region, particularly in Austria and Slovakia.

**How has the importance of sustainability changed over your 30 years in real estate development?**
It has always been important and has continuously evolved as new innovations, technologies and materials are discovered. The requirements set by local authorities and particularly the large occupiers – with their increasing corporate governance – demand the highest standards are met so environmental features have certainly become more prominent. This flight to quality from both occupiers and institutional investors when they are looking to acquire a building has been a growing trend in recent years and I think will only accelerate as a result of the global pandemic, although it is difficult to say for sure at this stage.

**Who is driving the innovation to futureproof buildings – is it the developers, occupiers or local authorities?**
I would say it is a combination of all three. As the end-user and customer, the occupier is clearly very influential, while the local authority has a responsibility to protect the interests of the local region. So as the developer we need to work together and bring our own expertise and experience to ensure we are delivering the highest quality development for everyone.

**How significant is the social value Karimpol brings to the communities in which it is delivering projects?**
Major office developments have the potential to act as a catalyst for wider regeneration of districts and communities. A good example of this is our Andel Park A & B scheme in Prague. We identified a brownfield site, which was formerly home to an old factory, and developed a 33,000 square metres office and retail development which has had a transformational effect on the Prague 5 area of the city.

The scheme has breathed new life into the district, attracting further widespread investment which has led to new restaurants and shopping centres opening, new and refurbished residential developments and improvements to roads and local infrastructure.

A further example of an office scheme providing the impetus and momentum for change is the Skyliner tower in Warsaw. A contemporary office building located in the Wola district, it is one of the city's highest skyscrapers and has reshaped and elevated the location and helped Warsaw achieve its vision of being recognised as the financial centre of Eastern Europe.

**What would you say is the key to maximising the positive social impact of your developments?**
Partnership. It is vital that all these major projects are approached not in isolation but through comprehensive engagement with the local community at every level. From the outset, a good, close relationship with city authorities is essential, with a coordinated approach ensuring the development brings maximum benefit to the local economy and community and supports the overall strategy and ambition of the region. Furthermore, throughout the supply chain we always engage with local contractors, sub-contractors and service providers to support local businesses and jobs.


Karimpol Skyliner, Warsaw
"Major office developments have the potential to act as a catalyst for wider regeneration of districts and communities."

## The challenge of a sustainable transition

If global institutional investors are anything to go by, the real estate sector and its clients may need to turn the challenges of the pandemic into an opportunity to reset the way they address sustainability and social impact. This environmental and social transition will be vital for successful real estate businesses to attract investment, customers, talent and returns.

Over 40% of the global institutional investors we polled would also encourage companies they invest in – including listed real estate organisations – to support health services in kind, whilst financially supporting environmental initiatives, apprenticeships, training, and community support such as food banks.

The real estate sector has certainly upped its game when it comes to the social aspects of ESG during the pandemic. It is also striking that, despite the economic uncertainty of a global recession, 50% of the real estate leaders we surveyed said they were committed to charitable giving during 2021.

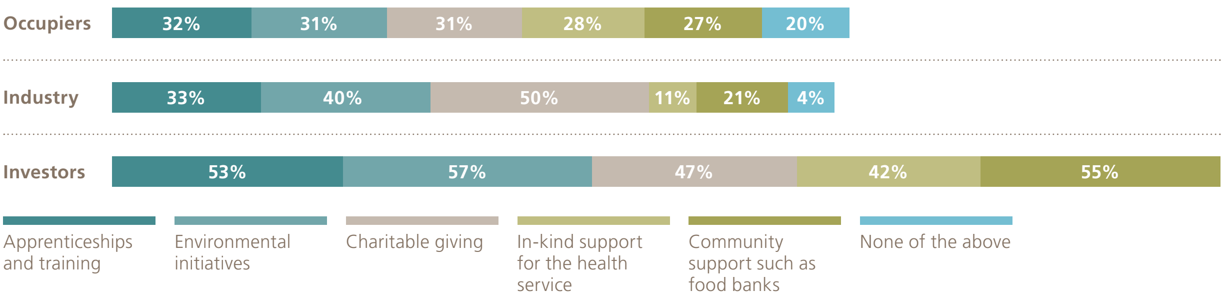
Global institutional investors' growing pressure on the real estate sector has not escaped the notice of the sector's leading thought leadership body, the Urban Land Institute, with over 40,000 members worldwide.

It has produced extensive research with USD 42 billion global real estate investment manager Heitman on climate risk, arguing that the sector does not have a clear strategy to mitigate this issue.

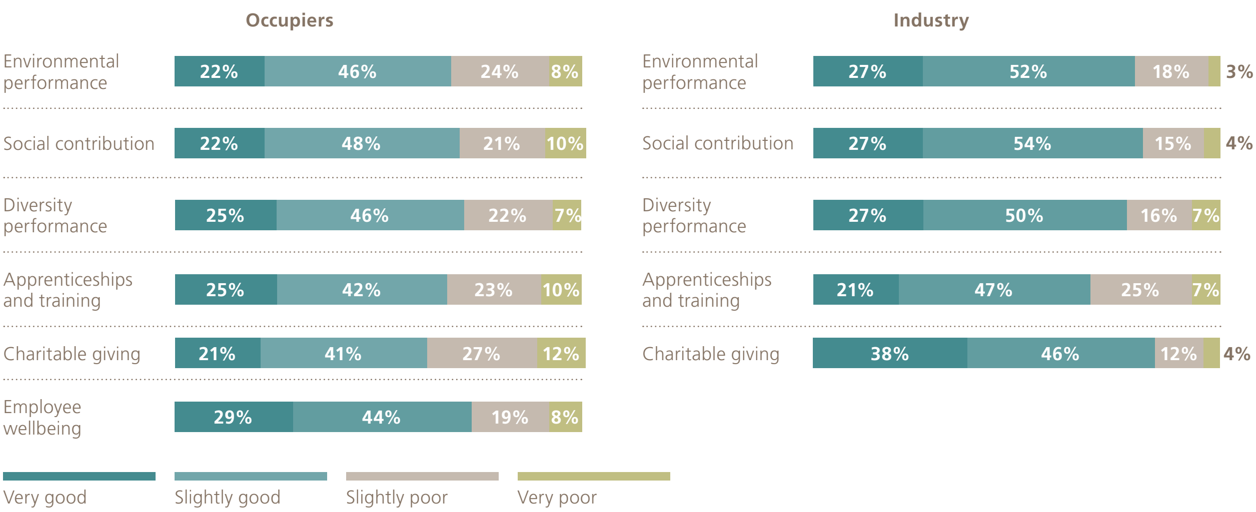
This means that physical risks, such as climate catastrophes, can lead to higher capital expenditure and operational costs. We should also now factor in 'transitional risks' which could mean entire towns or even cities become obsolete.

The ULI and Heitman argue for six new approaches to help the real estate world get better at pricing climate risk in the future. These include incorporating climate risk into all due diligence and other investment decision making processes and exploring portfolio diversification to mitigate risk.

### Q. Which of the following areas would you encourage companies you invest in to support financially during 2021? (Investors)
### Q. Will you be spending or raising money on the following in 2021? (Occupiers and Industry)




### Q. How would you generally rate your company for the following?



The property sector and its occupiers realise that they still have a job to do to meet the ESG criteria driven by investors.

More than one in five (21%) of the real estate leaders polled believe their companies are either poor or very poor when it comes to environmental performance, diversity (23%) and social contribution (19%). Nearly a third (32%) say their organisations are not doing enough to support apprenticeships and training. Occupiers are comparatively worse performers on charitable giving, and do not fare well even in their own eyes on social contribution and environmental performance.

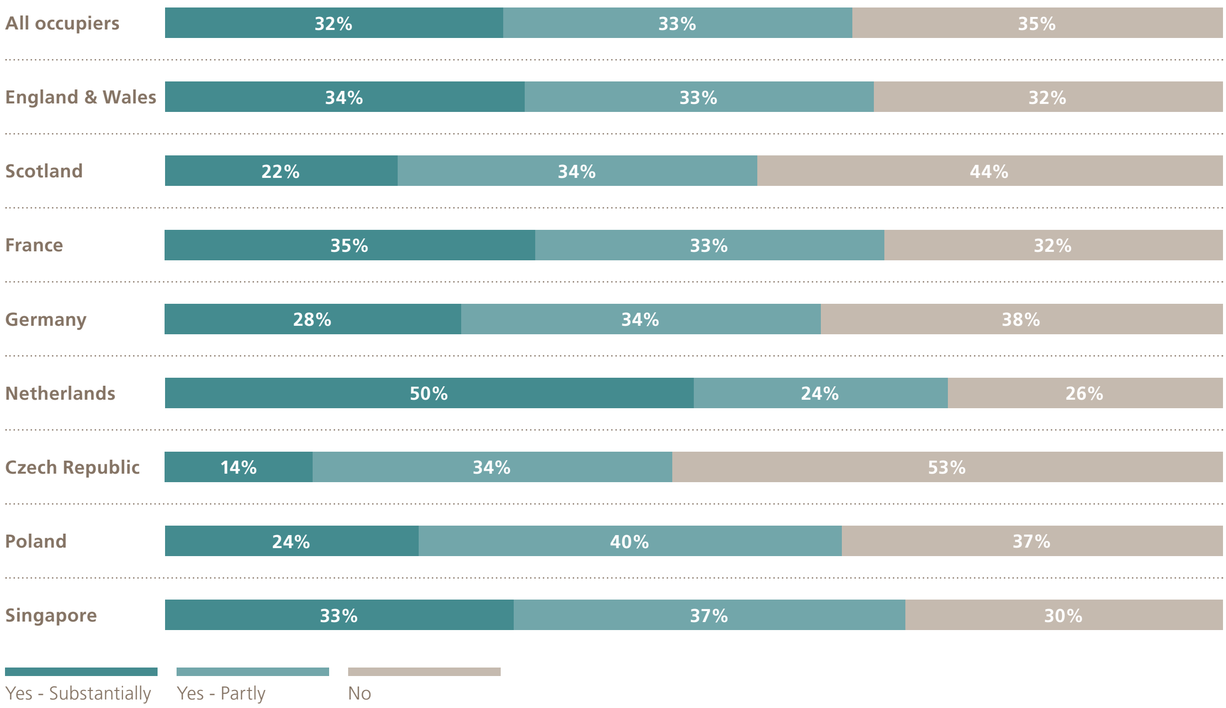
There are of course stand-out performers among the real estate world and its customers, but 2020 is proving to be a watershed moment.

When we asked senior office occupiers whether they would be happy personally to take a pay cut to work in a sustainable building. Globally 65% said they would be, with occupiers in The Netherlands (74%) and Singapore (70%) leading the way.

But it is institutional investors – who fundamentally drive real estate activity across the globe – who are pushing the hardest for much higher standards than the real estate sector or its customers are currently achieving. The pandemic may have led the real estate sector to seriously consider a reset based on a greater sense of social purpose and sustainability. All parties are under pressure to raise their game: fast.

65% of office occupiers say they would take a pay cut to work in an environmentally sustainable building.

## Q. Would you be willing to take a pay cut to work in an environmentally sustainable building? (Occupiers)



# The ‘S’ in ESG is often overlooked or misunderstood

**Harry de Ferry Foster**
Head of UK, Savills Investment Management

**Please tell us about Savills Investment Management**

We’re a global real estate investment manager with around EUR 20 billion of assets under management all over the world. We have a 30 year track record with a portfolio of over 40 mandates made up of pooled funds, segregated accounts and strategic partnerships. We invest in the retail, office, industrial and logistics, and alternative asset classes to varying weightings across our funds.

**How has the approach to ethical investment evolved over time?**

We first launched the Charities Property Fund over 20 years ago as the first fund of its kind giving charities in the UK the ability to invest directly in UK commercial property. The focus back then was negative screening: excluding investments which did not comply ethically. Today, the approach is all about proactive screening and demonstrating progress with environmental or social criteria, along with identifying opportunities, be they in life sciences, education, pharmaceuticals, the NHS or the new green economy: anywhere with strong growth and a good ethical story.

**Are investors compromising their returns by going down the ethical investment route?**

All clients want a return and ESG brownie points, but they don’t necessarily go hand in hand. These types of investment aren’t for everyone, but those who do it, embrace it and are clearly in it for the long-term will be rewarded. Returns may not be instant, but these assets will be much more sustainable in every sense whilst other assets may become stranded.

There is a trade-off in a small reduction in returns compared to other funds as a result of the relatively narrow horizon of investment, but this is offset by the long-term returns. Sectors such as life sciences, healthcare, and vaccine productions will be relatively unaffected by COVID-19 and are well placed to ride through the pandemic unscathed. And don’t underestimate the power of peace of mind that comes from doing good and making a positive contribution to society.

**Are we seeing landlords take a more responsible, ethical approach to development?**

Undoubtedly. They were before the pandemic, and we can only see this trend accelerating and moving forward. However, with landlords taking different approaches, we are starting to see a two-tier market of buildings which are being properly future-proofed and those getting left behind. Clearly it is the former with the long-term future as the occupier mindset moves from sustainability as being a “nice-to-have”, to becoming a fundamental and expected priority. With building regulations set to become more stringent and with increased emphasis on reporting energy and data consumption, the gap between this two-tier market will become increasingly profound.

We are also seeing a change of mindset towards the future-proofing of buildings, which doesn’t necessarily mean knocking the existing building down and replacing it with a new shiny office building, but looking to repurpose buildings several times and recycle the structure and materials.

While we are seeing landlords leading best practice in ESG in developing and retrofitting new and existing buildings, the responsibility is on everyone in the chain to work together to drive meaningful change.

**Can you tell us about one of your schemes which brings both environmental and social benefits to the occupier and local community?**

Warehouses are perhaps not as strongly associated with best practice in these fields as offices, but we are particularly proud of our new industrial scheme in Didcot. The units incorporate refurbed office space combined with industrial space, while outside we have created a green zone featuring a walking and running track, landscaped gardens, ponds and even an amphitheatre for workers to enjoy during breaks. Wellness and the importance of the workspace in the war for talent is much talked about in the office sector, but why should warehouses be any different? The principles are the same.

The S in ESG is often overlooked or misunderstood, but we are big believers in the social impact our workspaces have on our communities.

We encourage our contractors to engage with local schools and community groups, ensure regular two-way communication with the neighbours, run local apprenticeship schemes and donate space free of charge for worthwhile local projects, such as food banks.

**What next for Savills Investment Management?**

We believe COVID-19 will accelerate what was already a growing trend towards the sector adopting a greater social purpose and more ethically focused investment.

We will be launching a new ESG fund which will be a hybrid and also demonstrate impact. We believe there is a gap in the market at this moment in time to meet investor appetite for an expansive commercial fund across multiple asset types, with ESG at its core. Other funds in this area tend to be a niche offering with a single investment focus, such as affordable housing.

Building on our experience of the Charities Property Fund, the aim will be to secure immediate income through existing assets let to the NHS, charities, healthcare amenities and key worker housing, before going on to forward fund and develop new buildings which are environmentally excellent and make a significant social impact in the communities in most urgent need of regeneration.

Giant, Didcot

"Returns may not be instant, but ESG assets will be much more sustainable in every sense whilst other assets may become stranded."

# We need to get from ESG to ISO

**Jimmy Jia**
Venture Partner, Pi Labs

**Please tell us about Pi Labs and what you do**
I am pleased to have teamed up with Pi Labs, the pioneering prop tech venture capital group led by Faisal Butt, to join its joint venture partners panel to provide strategic ESG advice across its 50-company portfolio.

The ethos of my work has been to help clients to treat energy as a strategy through a decision-making framework which embeds environmental, social and governance investments into corporate strategy. This sits in line with Pi Labs strategy to identify and invest in technologies that have the potential to transform the built environment. Pi Labs are focused on investing in technologies to find solutions and implement more sustainable outcomes for the real estate industry, which is a defining issue of our time.

**Who do you advise and what is their traditional approach to energy?**
For over a decade, working at The Jia Group, I've worked with executives in retail, healthcare, higher education and even the utilities worlds to examine how they use energy. We often help them to save money, in particular reducing their exposure to volatile pricing. This is reflected in my role as Venture Partner at Pi Labs, where there is an entire ecosystem of mentors, experts and start-ups all focused on innovation to solve traditional approaches to energy and sustainability.

At Pi Labs, as we look to identify tech solutions which can address the significant challenges related to ESG, we need to focus on changing the narrative around energy use. It is not about bill management – it's about taking a bottom-up or grassroots approach to how they use energy in the first place. There is so much that can be done. 20% of Pi Labs' portfolio work directly tackles ESG issues, with investments into proptech companies like Switchee, 720 Degrees and QFlow, which are solving for energy consumption, carbon emissions and environmental risk.

**What do you tell corporates to do?**
The first thing I ask is "what's broken?". Old and broken equipment is such a drag on most companies' energy use: you don't keep a fridge for 10 years so why keep equipment which is out of date and costing you money as well?

Air conditioning, boilers, heat pumps, water towers: it's not uncommon for companies to want to delay a capital outlay, but by delaying that outlay the problem gets worse and the costs rise as you spend money on labour to fix it.

Instead of replacing broken equipment you want to be ahead of the game. For example, Pi Labs' portfolio company, Demand Logic, has developed a predictive maintenance technology which alerts you to building equipment that requires updating before it breaks down.

**How are investors reacting to energy consumption right now?**
Investors are turning their focus to ESG, there is certainly a lot more attention from the financial sector: I tell them that we need to get from ESG to ISO – meaning that we need clearly established standards for measurement of environmental, sustainability and governance performance.

According to estimates from the World Economic Forum, the industry consumes 41% of global energy annually and accounts for 20% of international carbon emissions. Pi Labs, which is the most established and most active proptech VC in Europe, made an early move into ESG as an area of focus, as the proptech sector started to produce disruptive technologies which could instigate real change. Responsible investing is a central part of the company's ethos and has been one of the attractions for institutional real estate investors investing into Pi Labs Fund 3.

More broadly, we're seeing that money is being invested into ESG – now we need to channel that money into improving energy use on the ground. For example, there will be a huge amount of retrofitting going on to adapt to the impact of the coronavirus – for example, creating more outside space at buildings.

**What will be the wider impacts of the pandemic?**
In Phoenix people are already talking about converting empty three-or four-bedroom houses into suburban co-working spaces, allowing more people to walk to work, again saving energy.

There will be more tolerance of different working styles: instead of trying to fit everyone into the same 40-hour working week box, people will find out what's suitable for them.

Ultimately, are we willing to give up our daily commute to maintain the climate remediation we have begun to achieve during the pandemic?

# Methodology

The research for this report was conducted by **FTI Consulting**, the independent business consultancy firm. Due to rounding not all percentage figures will add up to 100 in this report.

## Office occupiers

Our poll of senior office occupiers gathered the opinion of 1,507 office occupiers in the Czech Republic, England & Wales, France, Germany, The Netherlands, Poland, Scotland and Singapore.

- England & Wales 15%
- France 15%
- Scotland 15%
- Germany 14%
- The Netherlands 14%
- Singapore 13%
- Czech Republic 7%
- Poland 7%

### Ownership

80% 20%

Privately owned
Publicly owned (listed)

### Location of office

| 45% | 22% | 19% | 12% | 2% |
|---|---|---|---|---|
| City centre | Town/village | Suburb | Business park | Other physical office |

## Real estate professionals

Our industry poll gathered the opinions of 246 global real estate leaders sourced by CMS, with total assets of over GBP 3 billion. The profile of this group is broken down as follows:

| 41% | 11% | 27% | 6% | 15% |
|---|---|---|---|---|
| Investor | Developer | Agent / Adviser | Lender | Other |

### Sectors active in:

| 70% | 53% | 46% | 45% | 45% | 39% |
|---|---|---|---|---|---|
| Office | Retail | Industrial | Distribution/Logistics | Residential | Hotels/Leisure |
| 38% | 31% | 23% | 16% | 5% | |
| PRS | Student housing | Healthcare | Retirement living | Other | |

## Global institutional investors

Our poll of global institutional investors canvassed the opinions of 521 investment professionals with combined assets under management of over USD 10 trillion.

### Type of fund

- Private bank / wealth 40%
- Investment or mutual 58%
- Hedge fund 11%
- Pension fund 24%
- Insurance fund 26%
- Sovereign wealth fund 15%
- Endowment fund 17%

### Location

- Western Europe 28%
- Eastern Europe 7%
- North America 27%
- South America 13%
- Asia-Pacific 9%
- Middle East 10%
- Africa 4%

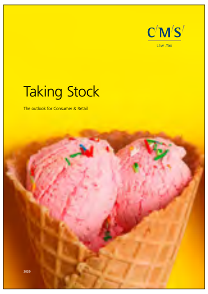
# About us

Ranked as the world's sixth largest law firm by lawyer headcount and sixth largest in the UK by revenue, CMS can work for you in 40+ countries from 70+ offices worldwide. Globally 4,800 lawyers offer business-focused advice tailored to our clients' needs, whether in local markets or across multiple jurisdictions.

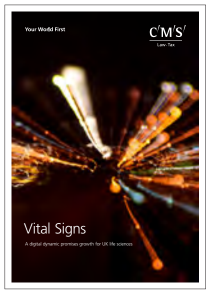
Across our eight core sectors – Consumer Products, Energy, Financial Institutions, Hotels & Leisure, Infrastructure & Project Finance, Life Sciences & Healthcare, Real Estate, and Technology, Media & Telecommunications – we have some of the brightest and most creative legal minds ready to advise you.

In addition to this year's report, we have a broad range of thought leadership papers covering major sector issues.

**cms.law**






### Our market-leading Real Estate team

When it comes to real estate, with over 700 lawyers we have the largest dedicated team in Europe, which is band one/tier one ranked in the legal directories and was awarded 'Real Estate Team of the Year' in the Lawyer Awards 2018.

Whether you are investing, developing or proactively managing your assets, CMS offers the full spectrum of legal advice for all your real estate needs.

You can also listen to our podcast series on topical market and legal issues in the real estate sector.

**Search 'CMS Real Deal Podcast' to subscribe or click here.**

TOP RANKED Chambers UK 2020

The LEGAL 500 UNITED KINGDOM TOP TIER 2020

THE LAWYER Global Real Estate 50 No.1 in the UK and Europe 2020

Law-Now™

Law.Tax

**Your free online legal information service.**

A subscription service for legal articles
on a variety of topics delivered by email.
**cms-lawnow.com**


CMS Cameron McKenna Nabarro Olswang LLP
Cannon Place
78 Cannon Street
London EC4N 6AF

T +44 (0)20 7367 3000
F +44 (0)20 7367 2000





2008-0131317-8